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JPRS 84704

8 November 1983

East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2471

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GERMAN DEMOCRATIC REPUBLIC

UPDATED ORDER ON EQUIPMENT EXPORTS

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in
German Part I No. 5, 25 Feb 83 pp 50-52

[Official text of "Order No. 2¹ on the Planning, Balancing and Accounting of Equipment Exports Including Subcontractor Deliveries and Services Rendered for Equipment Exports, 9 February 1983," signed for the chairman, State Planning Commission, by Klopfer, member, Council of Ministers and State Secretary, State Planning Commission; and by Soelle, minister for foreign trade. For the first Order on Equipment Exports, cited in footnote 1, see JPRS 78937 of 9 Sep 81, No. 2170 of this series.]

[Text] The following is being ordered to change the 10 June 1981 Order on the Planning, Balancing, and Accounting of Equipment Exports Including Subcontractor Deliveries and Services Rendered for Equipment Exports (GBI. I, No. 19, p 249):

Article 1

(1) Article 2, paragraph 5 is being amended as follows: "The following are to be included in the general plan as projects to open new business connections:

"--Socialist world projects that are subject matter of international plan coordination and long-term or have been confirmed by the competent minister,

"--Nonsocialist world projects that are subject matter of government agreements or have been confirmed by the competent minister."

(2) Article 2, paragraph 6 is being revised as follows:

"(6) Each year by 15 February the ministries in whose competence equipment export projects are being carried out are to transmit

the general plan to the State Planning Commission as a proposal for the preparation of the state tasks of the following year together with the submittal of the complex draft plan. The necessary tasks to be performed for this purpose are to be determined by the ministers."

(3) Article 2 is being amended by the following paragraph 7:

"(7) The basic plan for equipment export prior to its submission to the State Planning Commission is to be defended by the directors general of the combines to the competent minister together with the State Planning Commission and the Ministry for Foreign Trade. The defense is to be directed especially toward safeguarding high effectiveness of the equipment exports, their contractual commitment and toward assurance of the required linkages and subcontractor deliveries."

Article 2

(1) Article 3 is being amended by the following paragraph 2:

"(2) Subcontractor deliveries and services of the combines and enterprises from the Ministry for Construction and of the bezirk construction offices for equipment export that are being implemented at construction sites abroad by manpower of the construction industry or management and coordination of which are being implemented by the construction industry are to be planned and accounted for as direct export. For these subcontractor deliveries and services, the general suppliers must conclude contracts with the main contractors or contractors of the construction industry according to the contract law. In these contracts material and financial planning and accounting as direct export including the accounting date will be stipulated."

(2) The former paragraphs 2 and 3 of Article 3 are being renumbered 3 and 4.

Article 3

(1) Article 4, paragraph 1 is being reworded as follows:

"(1) For priority planning, balancing and implementation of the subcontractor deliveries required for the equipment export, the State Planning Commission will assign for the work stages

- a. preparation of the firm offer and
- b. conclusion and implementation of the contract

for each equipment export project a uniform order number with special identification of the work stage. The general suppliers apply for the order number through their competent state organs with the State Planning Commission (on form 0722). For equipment export projects for the nonsocialist world the application for issuance of the order number is to include the project confirmation issued by the competent minister, including the calculation of cost effectiveness. The applications are to be processed in the competent central state organs and in the State Planning Commission no later than within 7 days each after receipt."

(2) Article 4 paragraph 3 is being reworded as follows:

"(3) The assigned order number applies until completion of the project. If no contract is concluded, then the order number is to be returned immediately by the general supplier and canceled by the State Planning Commission."

(3) Article 4 is being amended by the following paragraph 5:

"(5) The main contractors and contractors are obliged to actively participate in the development of offers and in the preparation of equipment export contracts as well as their implementation. The duty to participate includes the following:

"a. Submission of offers on deliveries and services within deadlines corresponding to the market conditions;

"b. Implementation of the required services, especially of the project planning services in working up the offer and contract preparation;

"c. Safeguarding the required technical level of the necessary subcontractor deliveries;

"d. Making available the required cadres for the preparation and implementation of the contracts."

Article 4

(1) In Article 5, paragraph 2, the date is being changed to 15 February.

(2) In Article 5, paragraph 4, the first sentence is being reworded as follows:

"(4) The demand for subcontractor deliveries for equipment export planned by the general suppliers and main contractors is to be coordinated and integrated for the entire period of implementation with the contractors and the balancing and balance-sheet delegated organs depending upon the terms of the equipment export project in question, if necessary deviating from the centrally set target dates for the course of the balancing."

(3) Article 5, paragraph 5 is being worded as follows:

"(5) The general suppliers and main contractors are obliged to inform their superior state organs of the demand for subcontractor deliveries for the equipment export for the plan period in question broken down by project. On this basis, the state organs, following coordination with the ministries responsible for the production, must turn over to the State Planning Commission and to the ministries responsible for the balancing the demand for subcontractor deliveries by 15 February with the proposal of the general plan for equipment export."

(4) Article 5, paragraph 8 is being reworded as follows:

"(8) In the material, equipment, and consumer goods balances, demand and availability of subcontractor deliveries for equipment exports, broken down by deliveries for socialist-world and nonsocialist world equipment export projects, are to be shown separately according to the nomenclature 'subcontractor supply items for equipment export' and to be planned earmarked for supply areas or authorized investors (as a separate item of the balance shares)."²

(5) In Article 5, paragraph 11, the expression in parentheses "(including the possibilities according to Article 8)" is being deleted.

Article 5

Article 6 is being amended as follows:

"The ordering and delivery dates for subcontractor deliveries are to be agreed to depending on the conditions of the respective equipment export project in the business contracts, if necessary deviating from the ordering and delivery dates laid down in general regulations."

Article 6

(1) Article 7, paragraph 1 is to be supplemented as follows:

"The subcontractor deliveries for equipment export are to be planned and accounted for according to socialist world and nonsocialist world equipment export projects.² The ministries responsible for making available subcontractor deliveries for equipment export must submit to the State Planning Commission a proposal by 15 February for making available subcontractor deliveries for equipment export to be planned, broken down by socialist world and nonsocialist world."

(2) Article 7, paragraph 2 is being worded as follows:

"(2) The main contractors and contractors are obliged to itemize the state plan targets for 'subcontractor deliveries for the equipment export' broken down by subcontractor deliveries to socialist world and nonsocialist world equipment export projects in the combine and enterprise plan completely and audit-proof based on business contracts or orders."

Article 7

(1) The new heading of Article 8 is as follows:

"Accounting of Subcontractor Deliveries for Equipment Export as Direct Export"

(2) Article 8, paragraph 1 is being reworded as follows:

"(1) If after issuance of the state plan quotas subcontractor deliveries for equipment export are needed by general suppliers in the process of plan implementation based on market requirements that cannot be obtained within the framework of the planned balance shares or material funds according to the stipulations in articles 3 to 7, these subcontractor deliveries of the general supplier's main contractors or contractors can be accounted for as direct export. No changes in the state plan quotas must result therefrom. The general suppliers must conclude business contracts with the main contractors or contractors in which the accounting of the subcontractor deliveries concerned as direct export is stipulated. Conclusion of the business contracts requires the approval of the ministers competent for the general supplier and for the main contractor or contractor; the appropriate decision must be made without delay but no later than within 2 weeks. In case of subcontractor delivery problems that cannot be solved within the responsibility of the ministers, the minister responsible for the general supplier, together with the comment of the minister competent for the main contractor or other contractor of the general supplier, must submit appropriate proposals for decisions."

(3) In Article 8, paragraphs 5, 6, and 7, the words "to plan and" are being deleted.

(4) Article 8 is being amended by the following paragraph 8:

"(8) The foreign trade enterprise competent for the general supplier must provide in accounting and statistics the assignment of the subcontractor deliveries for equipment export to be accounted for as direct export by combines and enterprises in addition to the overall accounting of the equipment export object based on the concluded business contracts (according to paragraph 1 and Article 3, paragraph 2)."

(5) Paragraphs 2 and 3 in Article 8 are being deleted.

Article 8

(1) No. 1 of attachment 1 is being reworded as follows:

"1. Overall targets of equipment exports

"The general suppliers must submit the overall targets by 15 February together with the drafts to the Five Year Plan and to the annual economic plans (on form 9209 according to sample)."

(2) Number 2, b to d of attachment 1 are being reworded as follows:

"b. Work stage preparation of a binding offer

"The general suppliers must keep a title list (according to form 0722) for every binding offer to be prepared for an equipment export project. Changes that may occur must be reported without delay with correction voucher (form 0722) through the competent ministry to the State Planning Commission. In this connection, it must be assured that the respective title lists show the current status by 15 February and 4 weeks prior to transmittal of the complex plan draft.

"c. Work stage conclusion of contract and implementation of the equipment export project

"The general suppliers must keep a title list (according to form 0722) for every binding offer to be prepared for an equipment export project. Changes that may occur must be reported without delay with the correction voucher (form

0722) through the competent ministry to the State Planning Commission. In this connection it must be assured that the respective title lists show the current status of 15 February and 4 weeks prior to transmittal of the complex plan draft.

"d. Demand for subcontractor deliveries

"The general suppliers must confer on and coordinate the demand according to Article 3, paragraph 1 for

--Products and partial plants on forms 0722 (page 2) and 1804;

--Construction work including construction coordination on form 0805;

--Project-planning work (informal) and construction project-planning work on form 0804;

--Scientific-technical services connected with the preparation of documentation or licensing; and

--other subcontractor deliveries and services

with the balancing organs or those charged with balancing or other competent combines or economy-managing organs and submit them according to the legal regulations."

(3) In the "Sample for the breakdown of the Overall Target Figures of Equipment Export" of attachment 1, the word "of that" is being deleted.

Article 9

Concluding Regulations

(1) This order takes effect with its publication.

(2) Simultaneously attachment 2 of the 10 June 1981 Order on the Planning, Balancing, and Accounting of Equipment Export Including Subcontractor Deliveries and Services for Equipment Export (GB1. I, No. 19, p 249) is hereby rescinded.³

Berlin, 9 February 1983

For the Chairman of the State Planning Commission, Klopfer

The Minister for Foreign Trade, Soelle

FOOTNOTES

1. Order (No. 1) of 10 June 1981 (GB1. I, No. 19, p. 249)
2. Planning and balancing of the subcontractor deliveries according to socialist world and nonsocialist world equipment export projects must take place starting with the preparation of the plan drafts for the 1984 economic plan.
3. The nomenclature --subcontractor delivery items for equipment export S and M positions-- applies at this time according to attachment No. 11 of the 22 April 1982 Order on the Nomenclature for Planning, Balancing, and Accounting of Material, Apparatus and Consumer Goods for the Preparation and Implementation of the Annual Economic Plans --Balance List-- (Special Issue No. 688/13 of GESETZBLATT).

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HUNGARY

CONGRESS OF ECONOMISTS DISCUSSES ORGANIZATIONAL, INSTITUTIONAL SYSTEM

Congress Convenes

Budapest PENZUGYI SZEMLE in Hungarian No 8-9, Aug-Sep 83 pp 588-590

[Text] The 22d Congress of Economists took place on 20-21 June 1983 in Dunaujvaros. Its organizers were the Hungarian Economics Society, the Federation of Hungarian Jurists, the MTESZ [Federation of Technical and Natural Science Associations] Scientific Society for Organization and Management, the MAE [Hungarian Agricultural Sciences Association] Agricultural Economics Society, and the Economics Committee and Fejer Megye organs of the TIT [Society for the Propagation of Scientific Knowledge].

Dr Bela Csikos-Nagy, president of the Hungarian Economics Society, called the congress to order.

Before the commencement of discussions, Imre Takacs, first secretary of the MSZMP Fejer Megye Committee, welcomed the delegates to the congress. In his address he said in part:

"We consider it an honor and pleasure that, after 11 years, we are again able to welcome in Fejer Megye this eminent forum of Hungary's economists, the Congress of Economists, and all its conferees. Szekesfehervar, which at that time was celebrating its millenium, acted as host to the congress 11 years ago. And now the 33-year-old Dunaujvaros, the first socialist city in our country, is welcoming affectionately its dear guests. I hope that your stay here will convince you that we residents of Fejer Megye, and within it of Dunaujvaros, attach exceptional importance to this congress. Fejer Megye has a population of 424,000 on an area of 4,000 square kilometers. Together with the work and results of its residents, as well as with its problems, Fejer Megye is an integral part of our country.

"The results achieved by local residents augment the results of our entire people. Our concerns, problems and mistakes are part and parcel of the nation's concerns, problems and mistakes. We believe that our work--and let us add, our better work--today and every day can best serve as the foundation for the solution of our future problems, tasks and agenda. The subject that the congress will consider during its two days of discussion is an important topic also of Fejer Megye's industrial plants and farms. Therefore I am convinced that our megye, too, will profit from the lectures and debates at this congress.

"I do not claim a mandate to attempt a detailed presentation on Fejer Megye. What I am able to say here today is already familiar to you. And what can a Fejer Megye resident really say? He can say sincerely that Fejer Megye is a beautiful megye. To us it certainly is beautiful. The Vertes foothills, the vicinity of Lake Velence, the bank of the Danube, the northern portion of Mezofold, and the Sarret region are areas of Hungary that support the local population and appeal to visitors.

"Colleagues often tell me that we have it made because we have good industries, and also good harvests if we do not forget to plant. They are referring to our relatively favorable conditions. Admittedly, this region was similar to others in Hungary, but from the viewpoint of the economy there were more natural resources: coal, bauxite, and sand for glassmaking. We have good fertile soil. But we also had a weak and underdeveloped industry, a backward agriculture, and 33,000 farmhands! This we will never forget!

"And there came to be more of everything. A modern economy with a gross output of nearly 90 billion forints. Developed large-scale industry that is gradually developing further, with an output forty times greater than before the liberation. Our Dunaujvaros, where today's session is being held, was built with its integrated industry. Modern and efficiently functioning agriculture that produces 2.5 times more on a substantially smaller area than before the war.

"Most of our farms and industrial plants are prospering. We know from the multiyear averages of per capita production, proportion of export, profitability and other important indicators that development has produced a local economy and agriculture whose role within the national economy is not bad. Thus our conditions are basically favorable. We have nothing to be ashamed of regarding our results on the whole, but we of course do have problems. Admittedly, last year only one of our economic units closed its accounts with an unsuitable profit level. And it is also true that among our enterprises and cooperatives there are also large and important ones, and some of them have gained national prominence. But we also know that the indicators of macro-economic efficiency, computed in terms of income per 100 forints of factor costs, worsened in every branch, with the exception of agriculture, forestry, and the management of water resources. They worsened for our entire industry, although here the greatest decline was caused by the development of sales in metallurgy, the iron and aluminum industries. The increase of inventories has affected the indicators unfavorably. We find that economic units became frightened by their accumulating inventories only when they started preparing their balance sheets. But it should also be pointed out that the higher prices of basic materials and energy likewise had a significant effect. There are very great unutilized reserves in these areas. Especially in the sense that many economic units speak of economization when their consumption of materials and energy declines slightly, whereas actually they are just starting to eliminate waste. Market prices have developed unfavorably also for our enterprises. From all this we must draw numerous conclusions, but primarily the conclusion that in human engineering, production engineering, upgrading quality, and in saving materials, energy and time, we find new opportunities for improvement day in and day out, by managing brainpower efficiently, employing incentive wages and seeking stimuli for more efficient work, and by uncovering our reserves."

Imre Takacs next discussed work organization, the performance of management's tasks, the findings in their balance for the past six months, and then continued: "This balance also shows that the 310,000 adult residents of our megye are working successfully, in a basically good political environment, for the realization of the main political objectives set by the 12th party congress. Our conditions were given. In accordance with the possibilities and with varying results, the approximately 116,000 nonworking minors, from infants to secondary-school students, are able to devote themselves to the enormous task of preparing for adult life, within the limits of our existing higher educational institutions' capacity and under constantly improving conditions. We find that the overwhelming majority of the people identify with the party and government's intention to improve life in Hungary. They acknowledge the results and demand better solutions. Exceptionally great tasks fall today on everyone who has a sense of responsibility and is willing to accept responsibility. Incidentally, tasks--be they party, state or social functions--may be accepted only in this manner, with responsibility.

"Everything I have said about ourselves in these few minutes has perhaps confirmed that this small corner of Hungary, Fejer Megye, is truly a part of our country. I am confident that these constructive deliberations will serve well the Hungarian economy, the cause of our entire people, including also the economies of Fejer Megye and Dunaujvaros."

After greetings from the megye, Dr. Istvan Hetenyi, the minister of finance, and Dr Imre Markoja, the minister of justice, gave their opening addresses in the debate.

Finance Minister Hetenyi's Address

Budapest PENZUGYI SZEMLE in Hungarian No 8-9, Aug-Sep 83 pp 590-594

[Text] Investigation of the Hungarian economy's organizational system is always a timely topic. But changes in this system are a result of a slow process of maturing: there are areas in which we have already succeeded in bringing the organizational background in harmony with the economy's development; here even proposals for modernization have matured. At the same time there are numerous questions and problems whose solution or proposals for solution are still in an initial stage. These can be debated successfully and in the hope of fruitful inputs, but with the understanding that final recipes are not available as yet.

Within this topic I am able to dwell briefly in this address primarily on the most important trends, and on certain dilemmas and alternatives. I take seriously the fact that my address is intended to introduce debate, and therefore I wish to raise questions and not close them. I am doing so in the hope that the sections will then debate the problems in greater detail and more specifically.

Debate on the Hungarian economy's organizational system opened only a few years ago. For the general consensus at the start of the 1968 economic reform was that the new elements built into the economic mechanism were in themselves able to induce significant changes that should not be disturbed by additional

organizational changes. I think that was a very sensible solution, the more so because it is not entirely certain that development of suitable organizational forms would have succeeded at the very beginning. Substantiated decisions regarding the introduction of organizational changes today can be made only after the evaluation of extensive experience.

The debates a few years ago called attention primarily to the deformation of the Hungarian economy's structure or, more accurately, of the structure of its economic organizations. Many contributors to the debates pointed out that the organization of our economy was overcentralized also in the light of international comparisons: monopolies or monopoly-like formations and licenses were the dominant that occasionally could (and did) come into conflict with many of the announced economic policy's requirements.

Even if we admit all these problems, the organizational system is not a question of quantity. It is not possible to approach the problem simply by saying that there are too many large enterprises, too few small ones, the average is such, with so much dispersion, etc. The only constructive way of approaching this problem and of making headway in its solution is by not neglecting but taking into consideration also the causes related to macroeconomic management.

The organizational system must be regarded as a qualitative question that serves to improve the quality of our entire economy.

This is first of all a question of economic policy in the narrower sense, because we must be able to create organizations expedient for the realization of a given economic policy. To this we must immediately add that under socialism the relationship between economic policy and the organizational system is more direct than under capitalism, because in its economy-organizing work the state, by virtue of state ownership, has the direct responsibility and task of developing the size and nature of the individual economic units and the methods by which they are managed. In our country the state as owner also has direct rights and obligations. With the exception of a few official matters of public interest, to a significant extent the organizational questions are related specifically to the state's status as owner.

Secondly, the questions of enterprise organization and management tie in with the problems of enterprise independence. To this extent the debate on the organizational system is an integral part of the debate on the general economic mechanism. The question then is essentially the following: What should the socialist enterprise be like? The answer to this question provides the key that enables us to properly consider the questions of enterprise organization. Among the organizational questions, therefore, we must start out from the questions of the enterprises' organizational system, and only after clarifying the economic-policy and economic-mechanism conditions of this system can we draw conclusions regarding the state's system of macroeconomic management.

Investigating the processes that have been taking place lately in the economy's organizational system, we see that it is in a state of transition. This state of transition is not due to the fact that our economy is coping with difficulties. It is due to our seeking a way to switch from the extensive to the intensive path of our economy's development on the one hand, and the organizational system essential to this changeover on the other. Both the economic

mechanism and macroeconomic management are transitional in many respects, but this "transitionality" of the organizational system is still something different. Different because in the 1960's, as I have indicated also earlier, there did not develop so clear and well-outlined guidelines regarding organizational changes as did, for example, on linking the plan and the market or in conjunction with price policy.

It is more or less clear what this organizational system is turning away from. It has turned away from the enterprise organization and enterprise character that were created, as the embodiment of so-called operational independence, for the implementation of the plans. To a large extent enterprise organization at that time developed, both externally and internally, in accordance with the requirement of manageability, a requirement foreign to the inherent nature of economic activity. This was one of the basic questions underlying the formation of overcentralized organizations. Furthermore, this was the basic reason why the enterprise was organized to perform only one dominant function among its internal functions. That was the time when the view was held that the producer should produce, the merchant distribute, etc.

The direction of change is fairly palpable. It is toward the formation of entrepreneurial enterprises that are able to respond not to commands, but to demand, to the market if you wish, and to respond actively, through supply.

Hence it follows that the only organizational system able to do this is the one that has, on the one hand, the ability to perceive to a certain extent the market forces and, on the other hand, an internal organization endowed with all the functions necessary to respond to these forces, i.e., the ability to produce, market and develop, all these three jointly. This does not exclude at all the possibility that the organizational system might realize certain functions with the help of specialized organizations.

I hasten to place on record my opinion that the picture of the future outlined in this change has not developed clearly as yet. The question has often been raised as to what would be ideal: how many, large, medium and small enterprises, etc. I am convinced that a prophetic dream about an ideal picture of the future would be jumping from the frying pan into the fire, because we actually would be fettering on the basis of some other principle specifically the self-development, the ability to respond to market forces.

More than 200 new industrial enterprises were formed two or three years ago (predominantly within the food industry), and we have made the establishment of many new forms of businesses possible. Practice partially forced us to do so. This is why we had to regulate the conditions of partnerships, small farms, investment enterprises, etc.

Likewise typical of recent years is the dismantling of the so-called fettering of the enterprises. It has become obvious that these questions cannot leave unchanged the question of enterprise supervision and of the enterprises' top management. This is why I have said that this is not simply a quantitative question but a qualitative one, because the regulations governing the operations of enterprises that are active in the market differ considerably and necessarily, in terms of supervision and management, from the regulations

applicable to enterprises managed by means of plans, expectations, and regular operational commands. Thus here this question encounters the broad questions of management, and within them primarily the matter of exercising the rights of the owner.

We have taken significant but only initial steps during the past 15 years. There has been progress in the willingness to terminate obsolete central or other monopoly rights. This in itself is a process of decentralization.

Filling vacancies for directors on the basis of competition is likewise a new possibility. We need directors whose primary attribute is that they want to be directors. In other words, they must be enterprising.

This is important also because if we do away with the earlier restrictions that are no longer necessary, this in itself will not create an enterprising spirit. It is also necessary to seriously construct a new organizational system.

This construction is the establishment of an "entrepreneurial enterprise," and it requires the regulation of many questions pertaining to the owner's authority and rights. It does not require directly and exclusively the codification of enterprise organization, rather the creation of a market whose role corresponds to the Central Committee's 1966 guidelines. For if this role does not meet the requirements of the economic mechanism's basic characteristics, then there can be any number of organizations and any type of legal form, but we will not achieve what we jointly wanted.

The directions of developing enterprise organizations and the principal tasks in conjunction with them are as follows:

First of all it should be pointed out that we need to establish such types of entrepreneurial enterprises, enterprise organizations, that respond to market forces with active supply behavior. One condition for this is the integration of marketing, production and development. Another condition is that the organizations must adjust reasonably to market supply. The enterprise's ability to respond comprehensively to market forces is not a function of enterprise size. Both large and small enterprises may have this ability.

The next thing to emphasize is that economic policy must develop and supervise the market purposefully. The state should enhance by its own means the development of market conditions; among other things, it should regulate also the organizational questions in a way that will not produce the opposite effect. Here we have in mind the liquidation of monopoly situations and the regulation of competition and, I might add, the regulation of fair and unfair business activity. There is still very much to be done in this respect.

Of course, we are not talking mechanically of enterprise size. The situation is entirely different where we have to reckon with serious import competition, and again different where we do not. Our objective is not a contrived (pseudo) decentralization or "artificial competition." Where this is not possible, it cannot be forced. But then state regulation must reckon with this fact, and therefore in the case of monopolies it is necessary to create different frameworks for conduct and regulation. The essential thing is that ". . . we must always know to whom the legislation applies . . ."

The question of monopoly in the Hungarian economy is again not a question of size. We found that in numerous areas there were regulations that aided the development of invisible monopolies or quasi-monopolies, whatever we wish to call them. Here therefore the law--and accordingly, also economic policy--must be able to uncover the anomalies, and where the regulations do not serve the public interest but directly conflict with it, according to our present view, there the regulations must be rescinded.

The Hungarian Chamber of Commerce has formed and is maintaining a suitable committee so that these problems may surface as soon as possible. Sometimes it appears that some people, having become disaccustomed to competition during the past 30 years, now seem to think that competition means that anyone may do anything.

The third relationship we should emphasize is the coexistence of small, medium and large organizations, where the small organization does not necessarily imply the private sector. In the present historical situation it seems that in industry split-offs, split-ups and the founding of new organizations could create jointly smaller organizations besides the larger ones. Agriculture has already gone through this, for there are 1300 agricultural cooperatives that to a certain extent are able to compete with one another. Thus the standpoint is wrong that in industry the large organizations should be left alone, and we should merely form additional medium and small organizations. In a country where industrial employment is so high, smaller organizations cannot be based on an increase in the total number of organizations. The proportion of employment in industry can only decline. Thus if employment in large-scale industry declines, then no matter how painful the situation of some individuals (because earlier we developed an extensive industry), we cannot and must not say that this is a general problem.

In this context there are three things that should be pointed out:

--Let us talk only of entrepreneurial organizations, and not just of organizations per se! Take the construction industry, for example. Characteristic of the Hungarian construction industry is that the average work force numbers 31 persons. A work force of this size would be normal, but let us consider the dispersion. On the one hand there are enterprises subordinate to the ministry that employ several hundred or a thousand persons. Then there are 24,000 private contractors (40,000 persons, including employees). And in between there are the in-house construction organizations. Well, some of them are entrepreneurial (for example, the ancillary construction organizations of several agricultural cooperatives), and there are others that are absolutely not entrepreneurial. Thus we should be thinking not in terms of technological units, but of entrepreneurial units.

--Many people fear for technological development at smaller organizations, but I think their fears are unfounded. The forms can be found under which the technological development of smaller organizations will be satisfactory. Recently the Ministry of Industry published an exceptionally interesting and valuable study on the development of industry's organization. The supplements to this study contain information on the split-up industrial enterprises. Interestingly, according to the study, technological development has accelerated

at many split-up smaller enterprises. The main cause of this acceleration is seen in that previously technological development had to be conducted at the appropriate factory unit, then sent to headquarters, and finally back again. Now all the decisions are made locally.

--The foreseeable increase of administration is not an argument against small enterprises. We of course are considering how a smaller enterprise could operate with less administration. We have already done something to this end, but not enough. Incidentally, it is interesting that at engineering enterprises the number of white-collar workers at the split-off factory units did not increase after the split. (For in principle the old, large factory unit had demanded a partner for every central functional organization.) The situation is different in light industry where the factory units had been merely shops. There the white-collar staff did increase. But perhaps that too was not simply a consequence of the organizational change. (Factory managers in the textile industry have pointed out that whereas in the past they had orders for 10,000 square meters each, they now have to ship 500 square meters per order.)

The fourth basic factor is the multiplicity of sectors: the coexistence of the state, cooperative and private sectors, of the new businesses. Today economic policy must make clear that economic regulation has to be neutral toward the sectors. Not the form, but the economic processes should determine the expedient organization! Neutrality, of course, cannot mean unconditional identity of form, for the individual businesses are very diverse, and their activities cannot be regulated by the same decree. Perhaps national security or the tasks in conjunction with the citizens' security demand different regulation. Cultural policy likewise might warrant special solutions, etc.

The fifth aspect is economy of form. There are views to the effect that the organizational forms of economic activity are still too few, despite their increase lately. Economy of form is probably warranted by the fact that when the state establishes an enterprise, the state itself prescribes the forms. But when the organization or founding is explicitly entrepreneurial by nature, then we obviously have a business objective in mind, and suitable forms are sought for this objective.

That organizations are formed for business objectives, and therefore the enterprises should have more say in shaping enterprise organization, is already an established principle, and this is the direction in which we must proceed.

Important for economy of form is that statutory regulation be as flexible as possible. We should not strive to solve with the instruments of law questions that belong mostly in the competence of enterprise management.

Greater awareness is desirable of the fact that social capital and manpower (in other words, resources) should flow to efficient and flexible areas, and regulation should be developed to enhance this. Here statutory regulation should not be of the kind that permits the flow of resources solely through organizational mergers or reorganizations.

Flexibility of statutory regulation means that in some instances also experimental solutions may be employed in organizational decisions. Experimentation

can offer a realistic alternative to certain solutions in some instances where we do not yet see clearly the trend of general development. Such experimental solutions could be, for example, the organizations established pursuant to Section 53. And I regard as such the recently raised question of forming enterprises that actually comprise subsidiaries and do not have a production enterprise as their parent.

The sixth circle of problems concerns the forms of exercising the owner's rights. Allow me not to discuss this in greater detail, and to merely indicate that this question belongs here, and that I consider it a question related to the organizational system.

It must be taken into consideration that regulation of the owner's functions is also a function of enterprise independence. For an enterprise that is managed through commands and expectations from above is unable to establish a decentralized organization. Thus we must see that development in terms of internal independence is feasible where enterprise independence increases; and where it does not increase, there internal independence can develop only to a very limited extent.

We cannot fail to discuss certain sectoral trends. In the market-oriented sectors of industry and construction, the organizational transformation and dismantling of the horizontal large enterprises (mostly monopolies) and their splitup into individual units are warranted, in my opinion! Fairly many such steps have been taken. In some instances it might be expedient to split off certain stages, and to make them independent, also in the case of vertically integrated enterprises, especially when capacities within the vertical integration are not in harmony. In this case it is expedient to make independent especially the stages that have an opportunity to market abroad. Obviously a greater effort is made to satisfy foreign customers and the markets of other enterprises than within a hierarchical, vertically integrated enterprise.

In the case of enterprises of low efficiency operating at a loss, it is worth pondering how much entrepreneurial ability they might acquire solely through organizational changes, even without additional measures.

In the area of distribution we should bear in mind that trading is not an organization, but a function. The dismantling of excessive centralization is desirable also in trade. It is in our interest that producers conduct meaningful trading activity, and that trade perform a production-organizing function. At the same time I do not regard as sound the occasionally heard argument that we must fight production monopolies with trade monopolies. It is not a good idea to correct a mistake with another mistake.

In the service sector, the steps taken in the area of consumer services are well known. But it will be worth while to discuss also certain budgetary services. There are numerous budgetary organs that actually are service organizations, and where thinking in terms of recovering the costs is entirely warranted. Budget-financed operation is subject to tight restrictions. There is also the incentive system, but it is not widespread. In the area of economic services, therefore, organizing the activity as an enterprise could come into consideration.

What dilemmas do we encounter in the debate of the system of enterprise organization?

The demand to change an organization has arisen very often; some want to change it, while others do not. A debate starts "in principle" on why change is necessary. According to one view, it is felt that change is necessary to be able to break up an unwarranted monopoly. But another group feels that we should change only if someone calculates in advance, in as great detail as a five-year plan, how many forints the change will produce. In my opinion, the fact that we are unable to calculate what the foreseeable "results" will be during the next five years cannot be an obstacle to change.

In each individual case the state can and must promote organizational change. When the economic considerations are decisive and pronounced, the state must intervene as a matter of economic necessity. The state intervention is necessary to break up organizational monopolies, to improve the situation of the economic units reporting poor results, and in some instances to assume certain guaranties.

Are temporary solutions and compromises necessary? They often are, but we must always see where they lead. For if the organizing is burdened by distortions of principle, if the compromise reached is "rotten" rather than fermentative, then we should abandon the temporary solution because it could bar a more meaningful solution for a long period of time..

In conclusion I would like to dwell briefly on the questions of state power and public administration that are related to the organizational system. This circle of problems touches on the broad, general political plane of state life and, as I have mentioned earlier, it is also in interaction with the nature of macroeconomic management. Discussion of the relationship between the organs of state power and public administration, and of their structure would exceed the topic of this conference, and hence also the subject of my address. We must realize, however, that state power is public administration; the central and local spheres of authority, and the division of labor in branch management are of decisive influence. Nor can it be denied that the democratic control function of the organs of state power must be increased; this is specifically the direction in which we are striving to advance, and we will increase this function.

The principal directions in which the work of the state organs of macroeconomic management must be streamlined are as follows:

--The process of separating government functions from the functions of the state as owner must be continued. A more unambiguous division of functions, a clearer definition of tasks would unquestionably contribute toward broadening the enterprises' freedom of movement and toward improving their adaptability and flexibility. At the same time also the managing organs would be relieved of operational interventions to rescue the enterprises, for such interventions are far removed from their work anyhow.

--The government's ability and willingness to supervise and organize the market have shifted into the forefront of attention. It would be expedient to adapt

also to other ministries the process already begun within the state managing organs (Ministry of Industry, National Material and Price Office). Market supervision should basically be central. Individual ministries might perhaps act under delegated authority. On the one hand, market supervision requires market organization, ridding the market of domestic monopolies, and establishment of the conditions for economic competition. This necessarily presupposes central coordination and direction. Just stop to consider: the sound operation of the market also requires state guaranties, not just the market's formation or curing.

On the other hand, market supervision means operational market regulation, but not dissipated branch regulation. The emphasis is on economic regulation. Only where economic regulation is not available or possible should there be supplementary central measures of an administrative and helping nature.

In sum: market supervision should primarily help the market effectively fulfill the role that the economic mechanism has assigned it, and from time to time it should ward off market disturbances.

--For the development of credit relations, the central bank's policy must assert itself more clearly and should be further removed from lending to the enterprises, on the basis of considerations more business-like than at present. The establishment of new financial institutions is warranted especially to support innovation.

--It is warranted to strengthen the interest-representing functions of the business federations (perhaps these organs might shed some of their other added-on functions). More-open and better-substantiated procedures and forms of motion must be developed for the reconciliation of interests. Representation of the interests of enterprises, and separately of the enterprise directors' interests, by the Hungarian Chamber of Commerce should be developed.

While emphasizing the organizational system's importance, we must take into account that economic policy and the economic mechanism set the requirements that the economic units must meet, and expedient organization is in line with these requirements. Organizational measures divorced from these requirements are perfunctory and occasionally become the sources of unnecessary conflicts. The organizational system's modernization has gained acceptance in its own right and no longer serves the cause of reorganizations and of aiding inefficient enterprises. Just as any medicine, this too has its therapeutic effect, but it might have also undesirable and harmful side effects. However, the establishment and maintenance of the natural balance and harmony of management-mechanism-organization bring the therapeutic effect into the forefront.

Justice Minister Markoja's Address

Budapest PENZUGYI SZEMLE in Hungarian No 8-9, Aug-Sep 83 pp 595-603

[Text] In my lecture I would like to discuss, from the jurist's point of view, several timely questions of our economy, particularly of our system of economic organizations. By way of introduction, allow me a few words about the relationship among the state, the law and the economy. This is the more necessary

because a by no means negligible task of this congress--at which quite a few lawyers also are present, in addition to the economists--is to promote that the two professions start out from identical theoretical considerations when approaching, necessarily from different directions, the specific problems related to our topic.

It is common knowledge that the socialist state plays a definite role in all areas of society's life, and hence in the economy as well. In our time this role of the socialist state in developing economic relations is determined essentially by the fact that we have a planned economic system based on social ownership, a system that combines the planned economy and the market mechanisms, and asserts central macroeconomic management together with the economic organizations' independence, independent initiative and risk-taking.

I deem it necessary to emphasize that our state must exercise its functions even under this new system of macroeconomic management, but qualitatively in a different way than before the 1968 economic reform. I would characterize the essence of this change by saying that the state wants to manage the economy basically indirectly, through economic regulation and the instruments of state power, and it intends to interfere with operational measures in the activity of the economic organizations only within narrow limits and to the absolutely essential extent.

Although more than 15 years have elapsed since the economic reform's introduction, we are forced to state objectively that everything is not yet in order in conjunction with the exercise of these functions. It often happens, for example, that the managing organs interfere unwarrantedly and in detail in economic activity, and they reserve for themselves the right to decide also matters on which the economic organizations are better qualified to adopt a standpoint. Incidentally, these negative trends are aided also by the fact that in some areas the decision-making authority of the managing organs and that of the economic organizations are not defined accurately, and their tasks are blurred. Regrettably, so-called "informal" interference in the activity of the economic organizations is still widely typical even today, and this violates the declared and legally guaranteed independence of these organizations. At the same time it is undeniable that macroeconomic management by the state has also its more or less white spots: areas in which the state's economy-organizing and controlling functions are not being asserted properly. In this context I would cite merely as an example the price-control audits whose effectiveness must be increased in any case, in view of the price system's economic and social significance.

The conclusion to be drawn from these critical statements are obvious: it is an important requirement also for the future that we continue to search for those instruments and methods of state management that satisfy the conceptions of our system of macroeconomic management as well as the altered conditions of our efforts to develop the economy.

In the course of this search--and I regard this as a question of fundamental importance--we must unambiguously define what the macroeconomic managing organs' scope of authority should include; in other words, from what areas should macroeconomic management "withdraw," and in what areas does macroeconomic management have to be made more effective than up to now.

So far as "withdrawal" is concerned, I do not think that I need to give this audience an ideological and political explanation as to why a complete withdrawal--which some people like to emphasize these days--cannot and will not occur. This applies also to the role of the state as owner: here we have to draw a line barring the attempts to introduce state ownership essentially without the state, instead of reducing the administrative nature of supervision by the state as owner. At the same time, however, there can be no doubt that in the future we must end interference in economic activity that obstructs risk-taking, the unwarranted state subsidies, and the systematic aiding even today of the economic organizations that have become unable to compete. And we must further curb also direct state interference in the economic organizations' specific, day-to-day activity.

Regarding the more effective exercise of the state's functions, I find that we need more effective work of better quality particularly in modernizing planning, economic regulation, control and the organizational system, in the area of cadre policy, and in forming our international economic relations.

In this context it will perhaps be worth while to raise one more idea, over which there is so much debate these days. To wit, that the state has competence to represent and assert society's interests not only in its role as owner, but also as society's organizing force. When there are strong conflicts of interest, it is the duty of the state to resolve the contradictions between society's interests and the group or individual interests, or at least to try to resolve them. In a given case this might restrict the operation and behavior of the economic organizations, perhaps even by legal means. Unquestionably, however, this type of interference can be only exceptional.

The law is an important instrument of state management also in the area of the economy. The role that the law plays in conjunction with the economy can generally be summed up in that it strengthens the preparation of economic-policy action, regulates the conditions of implementation and its room for movement, and ensures the protection of the economic conditions. Already from all this it is evident that the law plays an important role in the economy, but it is able to fulfill this role only if the economy is increasingly law-sensitive, and the law becomes increasingly economy-sensitive.

However, it is worth defining this role of the law not only in general, but also specifically, with due consideration for our present conditions. The first thing we should emphasize in this context is that the role of the law under our present system of macroeconomic management is unquestionably greater than in the past. For a characteristic of our management system, as I have mentioned earlier, is that the state performs its economic function primarily in an indirect manner. And the indirect instruments of management--the economic regulators and the government regulations--are contained in legal norms.

At the same time we must clearly recognize that the law is not the only and not an omnipotent instrument of state management. The legal norms offer rules of conduct that the state can enforce through sanctions if necessary. Hence it follows that the law can be used as an instrument of management where state intervention of this type is necessary. There are numerous economic problems that cannot be solved with the set of instruments that the law provides, or can

be solved better by other instruments--for example, organizational measures, work organization, personnel-policy decisions, etc.--or the coordinated joint application of legal and other instruments is necessary to solve the given problems.

If we misinterpret, "overestimate," the law's role, this could result in only specious rather than real solutions in the course of implementing our social and economic tasks, which would slow down significantly the realization of our policy. But in such cases statutory regulation is unable to fulfill consistently its mission. Statutory regulation that moves in a vacuum "devalues" the law, weakens the "authority" of the legal norms, and thereby it could lead in the final outcome to the loosening of legality.

Besides the "overestimation" of the law's function, we occasionally encounter also the other extreme, the underestimation of the law's role. One source of this underestimation is a simplified conception of the relationship between the law and the economy. It is indisputable that in the final outcome the economy is the determining factor in the relationship between it and the law. But the law is relatively independent; it is able to fulfill its social mission only in conformity with its own rules, and not just any way. In the course of forming the economic relations, therefore, the law's task cannot be limited merely to "writing the score" for the economic concepts, to putting them into legal form. The law's role is not passive but active; in conformity with its own rules, the law necessarily provides feedback for the economic concepts in the course of their realization, and it modifies economic thinking.

Because of this it is of fundamental importance that jurists and economists think on the same wavelength when enacting legislation, and that they approach the problems comprehensively, from both the legal and economic viewpoint. Admittedly, this is not always easy. For example, the economic and the law sciences have their own peculiar and, in some respects, differing system of concepts, their own "language." Thus the two branches of science interpret differently, for example, the concept of ownership; and some economic concepts--cooperation, for example--do not have a legal equivalent, and these concepts cannot be transplanted directly into the law. I believe that this congress, through an exchange of views between the two professions, will contribute toward the clarification of also these and similar problems, and will thereby help to achieve thinking on the same wavelength.

The present, rapidly changing conditions under which we are developing our economy lend increased emphasis to the requirement that economic activity and our system of macroeconomic management must be able to respond flexibly and quickly to the changes occurring day by day. We repeatedly encounter the view that statutory regulation often prevents such response. I agree that obsolete regulations--and there unquestionably are regulations that have become obsolete--indeed hamper the elaboration of solutions that are expedient from the economic viewpoint. Therefore an important task of the codifiers is the continuous maintenance of the statutory regulations, to constantly update the statutory regulations in accordance with the changes in the economic conditions. But I would like to emphasize that this is the only solution, and not the "transgression" and disregarding of the legal norms. For strict enforcement of legality remains a basic requirement in the economy, and it must be

asserted even more consistently than up to now. At the same time this is also our immediate economic interest, because in the final outcome the statutory regulations provide the "rules of the game" for economic activity, the security without which successful economic activity and economic planning would be impossible.

Another frequent justifiable complaint against statutory regulation is that the legal norms in some areas are too detailed and complicated; in other words, that there is over-regulation. Government organs, too, are aware of this. In addition to the actions to date, a serious study is underway on what further measures we must adopt to curb this dangerous phenomenon that could become a hotbed of bureaucracy, and hence could obstruct also our efforts to reform the economy. So far as the elaboration of further measures is concerned, I would like to emphasize that here we must consider the responsibility of not only the drafters of legislation and the legislators themselves. Equally responsible are the government leaders and economic managers who--as I have already noted--are striving for specious solutions or are choosing the path of least resistance, and are striving to prove through the mass production of statutory regulations that they have done everything possible for the solution of the given social or economic problem. To tell the truth, however, today it is not always clear even to the leaders and lawyers to what extent and how they can employ effectively the law's arsenal of instruments under our present social system and system of macroeconomic management. And then difficulties often arise for statutory regulation from the fact that the preparation of political and government decisions is not sufficiently circumspect to serve as the basis for stable legislation of high quality. But strange as it may sound, regarding the drafting of even more legislation the codifiers are under considerable pressure also from below, from those who implement the laws in practice but constantly criticize over-regulation. To a large extent this ties in with the fact that some of the implementers--perhaps through our fault as well--lack the willingness to make independent decisions and to assume responsibility.

The curbing of statutory over-regulation, then, is an exceptionally complicated and complex question. Nor can this struggle be waged successfully with slogans alone. We will see to it that this does not happen in such a manner, and therefore I am confident that our efforts will be crowned with success before long.

Now I would like to discuss a few specific questions pertaining to the economy's organizational system and its further development. Among the various organizational forms, I would like to dwell first on the state enterprises, also in view of their outstanding economic role.

Before doing so, however, I would like to refer to the fact that the regulations pertaining to the economy's organizational system govern relations partially within organizations, and partially between organizations (including the linked organs and the managing organs). The task of the statutory regulation of relations within organizations is primarily to accomplish the organizational function, while statutory regulation of relations between organizations first of all transmits the objectives and interests of social management and division of labor. And perhaps one more thought in general: statutory regulation pertaining to organizations always bears basically the activity in mind.

Thus the organizational forms are not important in themselves, but only in conjunction with the functions and activity of the given organization.

And now let us turn specifically to the state enterprises.

It will be remembered that the basic regulations governing the legal status, organization and management of state enterprises are contained in a law enacted in 1977. Enactment of this law was a significant step toward the formation of statutory regulation that meets the requirements of our system of macroeconomic management, because it formulated for the first time at a high level--in relation to state enterprises--the basic principles of the economic reform introduced in 1968. Here I refer merely by way of examples to the declaration of the state enterprises' economic independence, entrepreneurial nature, initiative and responsible risk-taking, and to the development of the legal guarantees of economic independence, especially to the fact that the law permits only exceptionally, within narrow limits, operational interference by the managing organs in the enterprises' economic activity.

In view of the changes that have occurred in recent years in the conditions of developing the economy, making the system of enterprise organization flexible and modernization of enterprise management have become a task of special importance. Recognizing this, in recent years we have adopted numerous operational measures to end the unwarranted centralization of the organizational system and to develop a sound enterprise structure in which large, medium and small organizations are represented in proportions corresponding to the requirements of economic efficiency.

We have enhanced modernization also by means of statutory regulation. Thus we have made the system of enterprise organization more differentiated by regulating small companies and subsidiaries as specific types of enterprises; we have regulated anew the boards of supervision, modifying their composition and authority; we have made possible the establishment of management committees with decision-making authority; we have made the selection of enterprise directors by competition, and their appointment to a fixed term, the general practice, etc.

In spite of all this, I believe that I am expressing the opinion of the overwhelming majority of economists as well as jurists when I emphasize that in the area of modernizing our system of macroeconomic management one of the most important tasks of the coming period remains the further development and perfection of enterprise organization and management. I am convinced that here again we do not have to set a radical new start as our objective. Thus we do not have to start out along new paths, and instead must strive to consistently realize our set objectives and assert the 1968 economic reform's basic objectives, but simultaneously introduce changes necessitated by the new requirements of our time.

Further specific definition will require thorough analysis and extensive debate. This is indispensable if we are to formulate proposals that are carefully weighed and substantiated from the viewpoint of both economic policy and legal policy, and whose individual elements are "consistent," in harmony. Instead of outlining some comprehensive long-range program, which is something

we cannot yet undertake at this time, allow me to identify several principal directions of further development, ones that in my opinion can already be regarded as formed. These principal directions are as follows:

First, we must end the blending of the decision-making spheres of the managing organs and of the enterprises. To this end we must define more accurately what questions are to be decided by the managing organs, and which ones by the enterprises. This certainly will help to curb also the informal interference that violates enterprise independence.

Although several measures have been adopted recently to curb enterprise-supervising authority of an operational nature, in the course of defining the tasks of the macroeconomic managing organs and those of the enterprises we will have to rethink which spheres of enterprise-supervising authority should be abolished to eliminate unwarranted interference in the operations of the enterprises.

Secondly, it is common knowledge that the 1968 economic reform set as one of its objectives the separation of management by the state as owner, from management by the state as public authority. Formally this separation has been carried out, for our Enterprise Law and other statutory regulations contain separate provisions for management (supervision) by the state as owner, and again separate provisions for management by the state in the course of exercising state power. In practice, however, the two types of management are merged. Regarding the solution of this problem, I believe that at present we should not place on the agenda the development of new organizational solutions, rather we should strive to separate the instruments and methods of the two types of management, and to reduce within management by the state as owner the elements of state power and administration. Incidentally, promulgation of the decree of the Council of Ministers on the boards of supervision may be regarded as a step in this direction; in the area of management by the state as owner, the decree authorizes the boards of supervision not only to exercise control, but also to present proposals, and to review and report. We must strive also in the future to assign a greater role in management to the instruments of civil law; for example, to agreements between the organs of macroeconomic management and the enterprises.

Thirdly, the Hungarian Chamber of Commerce is a proven institution for safeguarding the interests of the enterprises. Its role in safeguarding and reconciling interests has increased in recent years, and this is expressed also in the revised decree on the Hungarian Chamber of Commerce that the Council of Ministers issued in 1980. It is important that the Chamber of Commerce perform its functions as effectively as possible. In addition to this, however, I believe it is warranted to strengthen also the legal protection of enterprise interests, giving the courts a bigger role in this area. It would be expedient to investigate, for example, whether the enterprises should be granted the right to sue for compensation or damages in cases when the managing organ, by its interference or command, causes a loss to the enterprise and does not provide restitution.

Fourthly, earlier the principle of one-man management applied to enterprises, and the authority of the managing committee--except at the trusts--was limited to advising, and to reviewing and reporting. The establishment of managing

committees with decision-making authority has breached to some extent the principle of one-man management. However, the relationship between the two types of decisions is not clarified sufficiently, neither in theory nor in practice. Moreover, it has been left to the discretion of the supervising organ whether or not to establish at the given enterprise a managing committee with decision-making authority.

It should be made clearer that at the enterprises the principle of one-man management applies to the sphere of operational management, but questions of enterprise strategy are decided collectively. In this context I think we should consider whether the establishment of a managing committee with decision-making authority should be tied to enterprise size, but there be made mandatory.

Fifthly, an important question of enterprise management is worker participation in management. This can be achieved primarily within the framework of "partnership relations" between enterprise management and the forums of enterprise democracy, the institutional system of which has been developed. The main task in this area, in my opinion, is to make these "partnership relations" more meaningful. To this end, on the one hand, we must avoid specious solutions; thus we must take care not to assign to the forums of plant democracy professional questions that are beyond them, because this would make their work perfunctory. On the other hand, in those questions for which it is warranted to give democratic forums decision-making authority, we must ensure the conditions enabling these forums to adopt meaningful and responsible standpoints and decisions.

Sixthly, our Enterprise Law enacted in 1977 institutionalized only the public utility enterprise and the trust as specific types of enterprises. When the law was amended, the types of enterprises were broadened to include small companies and subsidiaries. In the future, in conjunction with the greater flexibility of the system of enterprise organization, it will be expedient to investigate whether the specific regulation of additional enterprise types might be warranted, or whether the provisions restricting the wider use of certain types of enterprises--subsidiaries, for example--should be rescinded. However, differentiation in regulation must remain within reasonable limits, because the institutionalization of ever-newer types of enterprises could obscure the common features that are necessarily characteristic of state enterprises and could lead to a type of "pigeonholing." The organizational system, in my opinion, must not be made more flexible primarily in this manner. The principal task to this end is the lifting of the unwarranted restrictions that prevent the practical realization of differentiation within the framework of statutory regulation.

At the same time I regard perfection of the enterprises' internal organization as a task of fundamental importance. For this is one of the areas in which we have made the least progress, although profitable enterprise operation depends to no small extent on the modernization of this "internal mechanism." The main task here is to strengthen the independence and incentives of the individual plants and other units, and to accurately define and sensibly decentralize decision-making authority within the enterprises. It is expedient to increase the role of the enterprises' internal "norms" and regulations in economic activity and administration, because in this respect the enterprises--lacking suitable traditions and experience, are lagging behind the cooperatives.

The cooperative is the other organizational form of socialist business, based on self-government. The generally valid Cooperative Law that was enacted in 1971 was based on our consistent and proven cooperative policy, several decades of experience with the operation of cooperatives, and the 1968 economic reform. When drafting this law we started out from the proposition that the cooperatives directly managed by their members, and operating with the members' participation and contributed assets, had withstood the test of time and would be an important form of economic activity also in the future, and therefore it was necessary to provide legal guaranties for their smooth operation and independent management. For statutory regulation we used also the experience with drafting and implementing Law No III of 1967 on Agricultural Producer Cooperatives, the largest cooperative branch that is decisive in farm production.

Speaking of the Cooperative Law, I would like to point out that this law guarantees for the cooperatives the free choice of their activity (except for a few restrictions) and thereby provides wide room for the development of enterprise. In the formulation of the economic regulators, it prohibits discrimination against cooperatives as compared with other economic organizations, particularly state enterprises. In accordance with the principles of cooperative democracy, the law entrusts "supervision" by the owner to the members or their representatives participating in the forums of self-government, and it separates this supervision from branch and sectoral supervision and the supervision of legality that are the tasks of government organs. The law provides broad guaranties to ensure the independent operation of the cooperatives. In this context I will mention merely as an example that the law makes the issuance of binding regulations for the cooperatives contingent on higher legislative forms or on the agreement of the cooperative federations.

As the Cooperative Law's executory instructions, detailed regulations for the individual cooperative branches--with the exception of the agricultural cooperatives--are contained in law decrees.

During the past three years, several modifications were made in the statutory regulations governing cooperatives. The 1980-1981 modification was linked basically to the general modernization of the organizational system of economic activity; it enhanced the cooperative organization's decentralization and the greater independence of the subdivisions within the cooperatives. To this end we created new organizational forms--thus we institutionalized the small cooperative, and the specialized industrial and service cooperative groups--and we modernized further the existing forms. In addition, we lifted certain restrictions on the cooperatives' sphere of activity that had become obsolete.

Last year, after taking into consideration the standpoints of the cooperatives' congresses, we also modified the high-level statutory regulations concerning cooperatives. In the course of this we simplified the self-government and collective management of the cooperatives, by regrouping some spheres of decision-making and managing authority. We increased the role of the workplace collectives within the cooperatives and provided an opportunity for the more pronounced development of the special features of the cooperative branches.

So far as the immediate future is concerned, I think that the amended statutory regulations provide a basically suitable legal framework for the operation of

the cooperatives. The main task at present, therefore, is to maintain the stability of the present regulation. This of course does not exclude our introducing the necessary changes where there are problems to be solved.

In my opinion, we must continue to regard as our objective the strengthening of enterprise features within the internal organization of the cooperatives. A related timely question is to regulate the cooperative members' worker status --the rights and obligations pertaining to the performance of their work--on the same principles as employment. At the same time appropriate attention must be devoted to preserving the cooperative characteristics that stem from the nature of the ownership on which the operation of the cooperatives is based, and from self-government that is necessarily typical of cooperatives.

We must also continue to strengthen the independence and incentives of the smaller units within cooperatives. To this end it is warranted to broaden their rights pertaining to self-government and work performance, and to make more direct the link between the smaller collectives and the cooperative's self-governing body. We must likewise investigate whether it would be expedient to provide also legal guaranties to safeguard the interests and minority rights of the smaller collectives. A related question is that we should investigate whether it would be warranted to permit the cooperative subdivisions that are capable of independent operation to function as subsidiaries.

I regard as important the development of the relationship between the cooperative's members and its assets. We have not made sufficient headway in this respect, due in part to the fact that at one time we overemphasized the employment aspect of cooperative membership. In other words, we did not devote sufficient attention to the fact that a cooperative's members are the owners of its assets. The present relations of ownership, which often can be termed mostly symbolic, could be made meaningful primarily by increasing the members' share of income based on what assets they contributed to the cooperative. This would not only strengthen the members' status as owners, but would also increase the financial resources available to the cooperative.

In addition to these and other tasks that are to be solved in the immediate future (for example, significant narrowing of the scope of activities in which the cooperatives may engage only on the basis of prior approval), I think that from the long-term viewpoint it would be warranted to enact a truly uniform cooperative law. For the present statutory regulations governing cooperatives are too complicated and excessively dismembered, which is reflected also in the fact that at present there are, in addition to the Cooperative Law, one more law, four law decrees, and five decrees of the Council of Ministers, all on cooperatives. We must remedy this situation, the more so because the present system of regulation means that any significant change affecting the cooperatives requires amending a large number of statutory regulations.

Economic associations are playing an increasing role in our economy. The 1978 law decree governing them regulated in accordance with the then existing conditions the types of associations that may be formed as legal entities by domestic economic organizations, respectively the types of partnerships that are not legal entities. In addition, the more important provisions of the prewar statutory regulations on certain types of commercial companies--corporations and limited liability companies, for example--are still in force.

Today, however, corporations and limited liability companies may be formed only with foreign capital participation. Domestic economic organizations at present do not have the opportunity to form an association that could utilize the advantages that the aforementioned organizational form offers. The corporations that do not have foreign shareholders are essentially corporations in name only. The institutions (meeting of shareholders, board of directors) characteristic of the corporation have only perfunctory duties, and the corporation actually conducts its activity according to the regulations applicable to state enterprises. Therefore at present we do not have any form of domestic company in which the participants' responsibility is truly limited.

Under our changed economic conditions there is growing demand that the associations aid the flow of capital and thereby flexible adjustment to the market, and permit fruitful cooperation between economic organizations operating under different forms, particularly between state enterprises and cooperatives. The statutory regulations governing economic associations do not meet these requirements because, among other things, the responsibility of the association's participants is practically unlimited. And in their present form the regulations governing commercial companies, enacted respectively more than 50 and 100 years ago, are no longer suitable to serve the realization of the mentioned objectives.

For all these reasons I believe that the situation is ripe to enact a comprehensive and uniform law on associations, one that would contain the present regulations on economic associations and commercial companies, but omitting certain company forms that have become obsolete, such as limited partnerships and general partnerships, for example. New statutory regulation is made necessary also by the contradictions that stem from the by no means peaceful co-existence of statutes enacted in different periods.

A fundamental issue, in my opinion, is to provide in the new high-level statutory regulation an opportunity to employ the corporation form also when exclusively domestic economic organizations form an association and buy shares. In conjunction with this, we will have to formulate in accordance with our social conditions the provisions on the sale and purchase of shares and the possible restrictions on their trading.

I regard as an important requirement also that we consistently apply to all associations a normative system of approval. Which means that an association contract will still require official approval to be valid, but discretionary approval will cease, and the approving authority will be able to withhold approval only when the association contract violates statutory provisions. It might be warranted to grant the right of appeal to the court from a decision to withhold approval.

Another realistic demand is that in the law on associations we dismantle the present unnecessary restrictions on the freedom to contract. Which means that we replace a proportion of the mandatory regulations on contracting with provisions from which the contracting parties may depart by mutual consent, which will give greater freedom of movement to the economic organizations wishing to form an association.

Among the organization forms I would like to dwell in conclusion also on the so-called small businesses.

It will be remembered that in 1980-1981 we enacted several statutory regulations to further develop small businesses. On the one hand, these statutory regulations established new forms of small businesses, such as the business work partnerships [BWP's] and enterprise business work partnerships [EBWP's]. And on the other hand, they lifted the unwarranted restrictions on private artisans and private retailers.

The main objective of these measures was to better attract private initiative and private capital, particularly into supplying the population's needs and into the activity of the supplier industries, and to permit the earning of additional income based on more work, in areas where previously this was not legally possible.

The experience with small businesses in the relatively short time since the enactment of the statutory regulations has been generally favorable. The initial mistrust is receding, and the exaggerated expectations have quieted down. More BWP's and especially EBWP's have been formed than expected, and in some areas they have improved supply significantly. At the same time, however, problems also have surfaced.

One such problem is that a significant proportion of the EBWP's work exclusively for their parent organizations, and therefore supply of the population's demand has not improved adequately in some areas, particularly in the case of services. State control of the small businesses' operations from the viewpoint of legality has not been solved, or is not sufficiently effective, in some areas. At the same time the complaints are justified that often the formation of small businesses is complicated, and the procedure is more protracted than necessary.

On the basis of practical experience, the principal directions of developing further the statutory regulations on small businesses can be identified as follows:

First, we must investigate how the abuses found at some of the EBWP's could be curbed, and by what means could we ensure that the EBWP's enter the market also independently, providing more competition and improving the quality of the products and services.

Secondly, state control must be made more effective, and to this end the conditions for control work of suitable quality must be ensured at the councils.

Thirdly, on the basis of careful deliberation the procedures for establishing small businesses must be simplified. For example, the relationship between official approval and registration of the firm must be suitably regulated.

Finally, after this review of the organizational forms of economic activity, allow me to raise also a few questions that pertain to strengthening the legal order of economic activity.

First, it is common knowledge that recently the Council of Ministers reviewed and evaluated the functioning of our system of accountability within the economy. The investigation established that although our system of accountability is developed and on the whole fulfills its mission, the enforcement of accountability is nevertheless not consistent. Occasionally the legal consequences are not applied even in the case of conduct causing substantial damage also to the economy, or the applied sanctions are not commensurate with the losses incurred by the economy.

The causes of the mentioned phenomenon are complex. In some instances the reasons why organizations and individuals are not brought to account for their illegal conduct are subjective ones. Often, however, accountability cannot be determined because the spheres of decision-making authority are not clearly defined between the managing organs and the economic organizations and also within the latter, or the collective nature of the decision obscures personal accountability. Sometimes the shortcomings of control work prevent detection of conduct that provides grounds for bringing it to account. At other times the actions of the organs authorized to impose sanctions do not meet the requirements of economic policy and legal policy.

In the interest of making the system of accountability function more effectively, therefore, the Council of Ministers determined the principles and practical tasks of asserting accountability. The resolution emphasizes that in the economy the system of legal accountability must function jointly and in harmony with moral and economic incentives, and with the systematic evaluation of how the requirements set for managers are met. In every case of the statutory regulations' violation or of culpable negligence, accountability must be established regardless of the prestige of the person or organization in question, and a sanction commensurate with the degree of accountability must be imposed. The resolution calls for defining more accurately the spheres of decision-making authority, asserting more consistently accountability for the preparation of collective decisions, improving the quality of control work, and for stricter legality, greater professionalism and speed in the application of the statutory regulations.

The functioning of the system of accountability in the economy is enhanced also by the fact that we amended several of our statutory regulations in the interest of more effective sanctions, namely the Labor Code and the decree implementing it, the law on petty offenses, and the decree of the Council of Ministers on state control and economic sanctions.

At the same time I would like to emphasize that the resolution of the Council of Ministers on the more consistent functioning of the economy's system of accountability, and the related amendments of the statutory regulations are not a comprehensive reform of our legal system of accountability. What is involved here is not the abandonment of proven instruments for asserting legal accountability, rather the elimination of certain shortcomings and adoption of a practice far more consistent than heretofore. Active support of the responsible economic managers and uniform interpretation of the tasks, at the organs of macroeconomic management as well as within the economic organizations, are essential to the realization of these objectives.

Secondly, under our system of macroeconomic management, basically the economic organizations themselves shape their own economic relations. The contract is the principal means of establishing such relations. The contacts of the contract are determined partially by legal norms, and partially--within the limits of these norms--by mutual agreement of the contracting parties.

The most important effect of contracts is that they create an obligation to supply goods, provide services, etc., and the right to demand performance. Contracts serve their purpose when the contracting parties fulfill their obligations in accordance with the contract, i.e., in the manner (time, place and quality) specified in the contract.

The decisive role of contracts in the economic organizations' mutual relations warrants the fact that we have always placed great emphasis on modernizing the statutory regulation of contract law. We developed our present system of contracts in the course of the Civil Code's comprehensive modification in 1977. As a result of the modification, the economic organizations' independence and responsibility increased also in this area. We supplemented statutory regulation with several provisions that serve to curb the irregularities encountered in contractual relations. Such provisions are, for example, the ban on abusing economic superiority, the ban on excluding or limiting responsibility for breach of contract, the banks' right of recovery--within specific limits--in the case of nonfulfillment, etc.

In spite of this, it is undeniable that many unfavorable phenomena persist in the economic organizations' contractual relations, especially in the fulfillment of contractual obligations and in the enforcement of claims stemming from a breach of contract. In my opinion, the primary causes of these unfavorable phenomena must be sought outside statutory regulation. The law--especially the sanctions for contract violations--plays an important role in developing sound economic relations among economic organizations. But also in this area, statutory regulation is not omnipotent. Its assertion depends to a large extent on how much incentive the economic environment provides for shipping merchandise of good quality on time, for completing the undertaken work as specified in the contract, etc. The law's coercive force is no substitute for this incentive. Primarily the imbalance of the market, with demand exceeding supply, the monopoly situation of some economic organizations, lack of organization and other economic factors create a situation such that hampers cooperation between economic organizations and suitable fulfillment of the contracts.

Therefore the unfavorable phenomena can be eliminated primarily through economic measures, such as modernization of the product structure, perfection of the system of regulation, further development of the system of enterprise organization, and better-organized work. At the same time, however, the law cannot remain passive to the shortcomings that manifest themselves in the economic organizations' contractual relations. We sometimes hear that "contractual discipline," both as an expression and a requirement, is foreign to our economic mechanism and introduces an element of an administrative nature into the civil-law relations between enterprises. I think that this is faulty reasoning. The disciplined and accurate fulfillment of contracts is a basic requirement in any commodity-producing society, and in our country its importance is even greater. Starting out from this proposition, we recently reviewed the statutory

regulation of contracts. On our proposal, based on the results of the investigation, the Council of Ministers issued in April 1982 several new decrees aimed at curbing the unfavorable phenomena and at enhancing development of sound economic relations. Among the new regulations I would like to point out the increase of the penalties for nonfulfillment, and the institutionalization of invitations to tender, which strengthens the customers' position, offering them a choice of several offers.

Thirdly, there are nearly 6000 attorneys and officials in charge of legal matters at the various economic organizations. We may say without exaggeration that the legal staff has actively participated in the achievement of all our results in the economy's development. The legal staff has a special and increased responsibility for consistent compliance with the statutory regulations in the economy. For disciplined and efficient economic work, for which there is great need especially these days, cannot be imagined without solid legality.

The Presidential Council of the People's Republic recently issued a law decree on legal advisers. Its most important objective is to improve the quality of legal work, and thereby to strengthen legality, the role that the law plays in the economy. And although these tasks will await also in the future primarily the attorneys on the staffs of the enterprises and cooperatives, the new law decree permits also other solutions such as the establishment of offices or work partnerships by legal advisers.

The lack of adequate coordination in the professional activity of the legal advisers working in the various areas of the national economy has been a problem of long standing. The new statutory regulation provides an opportunity also for its solution. Without affecting the present authority of the branch ministers, coordinated guidance will be provided in the future by the Ministry of Justice. In the future it will thus be the task of the Ministry of Justice also to promote the development of a more uniform approach and legal practice in the economy that better conform to the requirements of legality and our legal policy.

1014
CS0: 2500/13

COLUMNIST TOUTS REFORM AS TEST OF POLITICAL WISDOM, WILL

Warsaw ZYCIE GOSPODARCZE in Polish No 42, 16 Oct 83 p 16

[Editorial commentary by S.C.: "The Reform and Politics"]

[Text] In the midst of the current debate on the modification of the economic reform program it is often forgotten that the significance of the reform has more than just an economic dimension. Its social and political significance, so strongly played up at one time, now seems to have faded into the background. But it is after all true that the social and political aspect of the reform is just as important and, and at the same time, closely and directly intertwined with the opportunities that exist for the reform to exert an effective influence on economic processes.

Jerzy Chlopecki points out one aspect of this problem in his article titled "Stake in the Game" which was published by PRAWO I ZYCIE. The point of departure for his remarks was that we still have to contend with the deeply ingrained belief in the public mind that there is a dividing line separating the government from the people, a line separating "us" from "them." I do not want to use this space to go into an analysis of the factors which caused this distinction to persist and become stronger in the past, notwithstanding the outward openness of our governmental institutions and the relative ease with which any politically active citizen could gain entry into these institutions. The author himself stresses that his analysis of this problem is somewhat oversimplified. What is important to note here from the perspective of the social and political significance of the economic reform is the statement that holding on to one's position in these institutions and also getting ahead depended on winning the approval of the "higher-ups," and not the "rank and file." This rule applied even in cases where positions were filled on the basis of democratic elections. This mechanism tended to promote the spread of arbitrary decisionmaking practices, and in the realm of the economy this was bound to have drastic consequences.

The economic reform has laid down or, to put it more precisely, should lay down rules of the game that are equally binding on all participants. That is, they should be binding both on enterprises and also on the government. In this connection--and this needs to be emphasized--the enterprise--as defined by the economic reform--is not just a technical-organizational concept, rather it is a unique kind of social organism. This after all is the reason behind the second "S"--self-management and the battles being waged to give

self-management bodies a say in the filling of management positions. Anyway, the point here is that the formation of "power structures" in the economy should be based on democratic groundrules, that dependence on the "higher ups" should not be the sole factor determining whether or not one keeps one's position and gets ahead in these institutions, that this dependence should be offset by "grassroots" oversight and review powers, and the findings made through the exercise of these powers should be binding--at least within certain limits--on everyone.

Jerzy Chlopecki makes references to the Hungarian experience in his article. He writes about how often he has heard some government official there say that they cannot do this or that because they are not allowed to do it. Indeed, no government likes these kinds of constraints, and very often the fact that jurisdictional boundaries and the imperative of refraining from the use of administrative directives are clearly spelled out is regarded as a sign of weakness in a government. I think that this belief is just as erroneous as it is dangerous. This attitude threatens the economic reform, but it also goes further than that. This is because J. Chlopecki is right when he says that the economy constitutes the largest arena within which state power is exercised, and the economy is tied to all of the other arenas of state power by the strongest bonds.

The economic reform never was and is not now designed to weaken the political system, that is, the state and the control that the state has over the course of economic events. It is just that the reform equips the government with a different set of tools for bringing its influence to bear and forces the government to resort to different methods for running the economy. There are two factors above all others that have a critical impact on the amount of power wielded by the government in this area. First, making the right choices as to the kinds of new tools which are to be used to bring this influence to bear, and, secondly, knowing how to use these tools. We have been assigning a very high priority to the process of refining these tools ever since we embarked upon the implementation of the economic reform. The recent debates and decisions on modifying some of the institutional machinery of the economic reform were also focused on this problem. But this second factor should not be overlooked either.

Lately one can hear people making comments, comments which are sometimes even based on the findings of public opinion polls, to the effect that the reform has not won the approval of a large percentage of the population and the public is demanding that the government should act to restore order in the economy. But how is the government going to go about restoring order when it is faced with all of these autonomous and self-managing enterprises? Well, regardless of whether or not these comments about the state of public opinion are entirely accurate, one must first of all ask the following question. Namely, is the reform the reason for chaos in the economy, or is the reason for this the fact that changes are constantly being made in the rules of the game? And in order for the economy to function more efficiently than it has so far should we start to backtrack on the reform? Or perhaps we should be more consistent and steadfast in putting the principles of the reform into practice, and, most importantly, perhaps we should study the rules of the reform and learn how to enforce them. Coming up with answers to these questions is important

not just for the sake of the economy, but also for the sake of all aspects of our public life. This is because, apart from everything else, the reform is a historic test in which we are called upon to answer the question as to whether we want to and know how to create a more perfect socialist system of government in our country.

CSO: 2600/145

BRIEFS

RAIL ELECTRIFICATION DELAYS--Work is proceeding on the electrification of nearly 50 kilometers of track on the Inowroclaw-Torun rail line. The costs of the project to modernize this heavily used rail route are approaching the 1 billion zloty mark. The opening of electric train service on this line will produce substantial savings. It is estimated that the electrification of this line will produce an initial savings of around 37,500 tons of coal per year. Work on the overhauling of this section of rail line has moved very far along, but it will not be completed as planned during the fourth quarter of 1983, mainly because of materials supply problems. The first electric train running between Inowroclaw and Torun will pull out of the station at the beginning of 1984.

[Text] [Warsaw ZYCIE WARSZAWY in Polish 5 Oct 83 p 1]

CSO: 2600/113

NEED TO PERFECT NORM-SETTING PROCESS STRESSED

Bucharest REVISTA ECONOMICA in Romanian No 35, 2 Sep 83 pp 2-3

[Article by Gheorghe Raboaca and Ion Bratu: "The Improvement of Labor-Norm Setting--an Important Factor in the Growth of Productivity"]

[Text] The raising of the general efficiency of production--in accordance with the necessities for continually developing our national economy and the real possibilities that each unit and society as a whole have--is conditioned to a high degree by the application of stimulative labor norms with thorough scientific substantiation. The alteration of the labor consumptions by improving the norms for all categories of personnel has a decisive importance and, in our opinion, represents the main condition for ensuring the efficiency of overall piecework, of the new pay system in its entirety, adopted not long ago by the highest legislative forum of the country.

The intensification of the efforts made in the direction of improving the labor norms is in the major interest of the whole society, but also of each economic unit and working person, it being well known that only on such a basis can economic growth occur under the conditions of the existing labor resources, that only thus can the manpower needs of sectors and branches or enterprises be met, can the growth of labor productivity be increased in all economic units, and do the working people have the possibility of achieving higher incomes. Acting firmly in the direction of improving the labor norms, the enterprises have created for themselves--under the conditions of the generalization of overall piecework beginning on 1 September 1983--good premises for the growth of productivity, the raising of the quality of production and the good material encouragement of all worker personnel.

On another occasion, we dwelled on the study of labor-norm setting and the quality of the labor norms.* In the following, we will try to point out the causes that generate some shortcomings in the sphere of norm setting and to distinguish the main directions of action for promoting labor norms with thorough substantiation.

* REVISTA ECONOMICA, Nos 40-41, 1982.

Exigencies Regarding Sensible Substantiation

The reexamination of the labor norms does not come to an end with the transition to the new pay system. So that labor-norm setting may become a continual activity that provides high efficiency to the whole pay system, it is necessary to know in each enterprise not only the stage of the norm setting but also the genesis of the shortcomings, their causes and the practical methods of combating and eliminating them. Many data and facts that appear with great frequency in practice support the idea that the labor norms are susceptible to improvements. These arguments are localized both in the sphere of economic analysis (macro- and micro-), in the sphere of planning, and also, directly, in the sphere of labor-norm setting. Thus, although all categories of personnel were included in the sphere of norm setting, this activity has not had notable results everywhere. We can speak of a lag in it due to the following four categories of causes:

a) Causes connected with the utilization of the labor norm. Although the norm is and must be, above all, an instrument for labor measurement and control, in practice it is sometimes utilized as a complement to the pay system--more precisely, for hiding imperfections in it. Being established and adopted by each enterprise to stabilize the work force, according to its own needs, according to many, very many, "concrete" conditions--some objective, others subjective--the labor norm can no longer perform effectively its function of stimulating the growth of labor productivity. Conditions are thus created for a different intensity of labor, for imbalances between norms, imbalances that, in the long run, cannot ensure either the stability of the work force, the full utilization of the supply of time, or technological discipline, the full utilization of the capacities, the growth of the quality of production and, last but not least, the stimulation of the individual interest in developing and improving one's own ability to work;

b) Causes connected with the theory and methodology of norm setting. From this viewpoint, the notion of average normal social intensity of labor has not gotten a thorough, fully scientific concretization. The criteria for setting and reexamining the norms are not clear enough for the needs of practical application. The lack of clarifications of this nature has left its imprint on the manner of setting and utilizing the norm: for a long time, the continual overestimation of the "concrete" conditions, along with the neglecting of the similarities, of the common aspects in the different kinds of labor, in the different concrete conditions in the enterprises, and so on, has contributed to the expansion of the practice of localizing the various correctives that affect their progressiveness in favor of accessibility. At other times, real characteristics of the different kinds of labor have been neglected in favor of the more or less significant similarities, thus affecting the output, quality and creativity;

c) Causes connected with the organization and development of labor-norm setting: the proportion of the localized norms is high, while the unified standards on the scale of the economy represent a low percentage; the technical facilities are insufficient, including the supply of personnel, especially from a qualitative viewpoint, in complex fields; the expansion of the studies on

ergonomics--in the true sense of the word, a multidisciplinary science--has not acquired, we believe, the necessary proportions; the norm setter at the level of the enterprise performs his function only with extreme difficulty.

In consequence, the effects of the manner of practical utilization of this valuable standard of labor pour out in a chain, beyond the sphere of norm setting, and reach into the sphere of economic efficiency, including the sphere of planning; the norms without sufficient substantiation, which do not reflect the real labor need, cannot be the basis for properly planning, on all hierarchical levels, the many correlations within the labor resources, between the labor resources and investments, between them and the growth of production and so on. However, in practice, such imbalances have made their way to a great extent precisely due to the unsuitable quality of the norms, the differences in intensity of the norms, on the one hand, and between them and some material incentives, on the other hand;

d) Causes connected with the fact that the economic incentives do not act properly in the direction of promoting progressive norms with the lowest labor expenditures; on the contrary, the action of these incentives causes an interest in wide norms, as wide as possible; however, it is obvious that the general social interests could be satisfied better and harmonized with the personal ones through improved utilization of both the norm and the material incentives.

Progressive, Stimulative Norms

The improvement of the labor norms and standards and the promotion of stimulative, progressive norms represent an essential direction of action for intensifying the qualitative aspects of the economic activity in our country. The special exigencies that the intensification of the growth of economic efficiency raises especially under the current conditions for applying overall piecework require that the solutions for promoting the norms with full scientific substantiation be oriented in the following three main directions: the setting and improvement of the labor norms by starting with the criterion of their progressiveness; the improvement and adaptation of the organization of labor and production in accordance with the requirements for promoting the same criterion; the strengthening of the action of the material incentives and the better orientation of them with a view to supporting the promotion of the norms with full scientific substantiation.

As regards the criterion of progressiveness, it must be stated that the labor norms and standards now practiced are not sufficiently stimulative for obtaining high indicators of productivity and efficiency. On the basis of the current norms, the enterprises with the highest labor consumptions cannot be brought down to the level of those with average consumptions of manual labor; these latter enterprises are not stimulated to attain the minimum levels of the labor consumptions in other economic units, just as they cannot be stimulated to outdo themselves, to achieve labor consumptions characteristic of the most efficient enterprises abroad.

The stimulative role of the labor norms and standards cannot be provided except through sensible substantiation of the labor consumption. If the labor norms

and standards are approached only as average values, then they cannot help to the necessary extent to attain the normal level of intensity and to reduce the socially necessary worktime. However, the stimulative character of the labor norms and standards can really be provided only if they are conceived and applied as progressive quantities, determined on the basis of fully utilizing all the possibilities that result from advanced techniques and technology, from the growing capacities of the work force, from the providing of better organization of production and labor, from the application of the most improved methods and procedures of working. Only such norms and standards--they too always viewed as dynamic quantities--can represent a true incentive for all economic units, including the top ones, in the achievement of the lowest labor expenditures, in the achievement of high performances in productivity. Only by conceiving the labor norms and standards by starting with the lowest labor expenditures attained by the top enterprises in the country and abroad is it possible to eliminate some deficiencies that result from the localization of the norms and standards with respect to the conditions of each enterprise, which impedes not only the expansion and improvement of the norms with thorough scientific substantiation but also the promotion and utilization of scientific and technical progress.

The preparation of norms with the lowest costs in manual labor must have not only full technical but also economic substantiation, with the improvement--in the most different aspects--of the organization of production and labor having to have the decisive role in this direction, including in ensuring the accessibility of the labor norms. The production plan represents the main point of orientation in this direction. However, the improvement of the organization of production and labor must not be limited strictly to this main "component," since, in many cases, the production plan does not reflect the real level of the possibilities of the enterprises; the improvement in organization must be done in the prospect of utilizing the reserves that result from technical and economic parameters of the production capacities, from the still unsatisfactory level of utilization of the production areas and machinery and the work force. By proceeding in this way it is possible to ensure the progressiveness of the uniform norms and standards and their generalization in all enterprises.

In the general improvement of the organization of production and labor, a process meant to provide simultaneously both the full economic substantiation of the labor norms and the attainment of the minimum consumptions of manual labor, their substantiation from a psychophysiological viewpoint must also occupy a quite special place. The psychophysiological sciences have made progress that is not utilized sufficiently in the practice of labor-norm setting in our country. The consideration of conclusions of the specialists--economists and psychophysiologicalists--and the application of them in the practice of the organization of production and labor, in the preparation and promotion of the progressive norms, represent an urgent necessity not only for measuring the level and evolution of the intensity of labor, for providing the balance between norms, but also for taking all steps to combat the factors that can increase the intensity of the effort and to contribute to the harmonious, efficient blending of the accessibility and progressiveness of the norms with the size and structure of the pay, of all material and moral incentives in general.

In order to improve the organization of production and labor and, in this way, promote the norms with full scientific, technical and economic (including psychophysiological) substantiation, we consider it useful: to develop the scientific research in the field of the organization of production and labor, including that of labor-norm setting; to create and develop the base of uniform labor standards (for the branch and the subbranch, down to the level of the workplaces); to expand the utilization of the standards for microelements in the study of the labor process; to improve the management of the processes of norm setting and of training and raising the qualifications of the specialists who work in the field of labor-norm setting and the organization of production and labor; to improve the structure of the personnel in the field of the organization of production and labor, including that of norm setting, from the viewpoint of including a larger number of personnel with technical, economic and psychophysiological higher education; to expand the technical (including electronic) facilities in studying the labor processes and in calculating the labor norms; to improve the methods of preparing and reexamining the norms with full scientific substantiation; to prepare and continually improve the systems for stimulating the promotion of the progressive norms.

A Flexible System of Material and Moral Incentives

In principle, the promotion of the progressive norms fits--as was stated earlier--into the general system of incentives in utilizing and developing the technical-material and human base of production. Regarding the other incentives, a change of direction in their action seems urgently necessary: while the worker's interest is now connected with as wide norms as possible, the promotion of the progressive norms requires that the material incentives create a major interest in the saving of manual labor, in norms with as low consumptions of manual labor as possible. For achieving this veritable shift in the action of the material incentives, in the promotion of the progressive labor norms, steps are necessary, of which we mention:

a) Considering that the enterprises employ the practice of adjusting the norms and providing for bigger overfulfillments at the workplaces with harder conditions, we regard it as necessary to provide a better differentiation in pay, both through the base pay and through increases, instead of utilizing the labor norms to ensure the attraction and stabilization of the workers;

b) In order to assimilate the norms with lower and lower labor consumptions--based on the more intense promotion of the more productive technologies and methods, on the expansion of the movement of innovations and rationalizations--it is efficient, we believe, to apply systems with lower piece rates in the case of practicing the local norms, adjusted additionally, and systems with full piece rates (at the level on hiring the workers) that would be applied in the case of utilizing the progressive norms; the utilization of two or more levels of piece rates would respond both to the needs for stimulation of multilateral training and better utilization of the worktime and to other requirements connected with blending at each moment efficient use with full employment of the labor resources under the conditions of as low a cost as possible in pay per unit of product;

c) The introduction of incentives connected with the reexamination of the labor norms on the initiative of the workers (of course, without lowering the quality of the products). These incentives could be established in relation to the volume of the savings obtained by reducing the consumption of manual labor;

d) The better use of the incentives that result from the application and expansion of overall piecework; the fact that, thus far with overall piecework, pay increases beyond the base pay on hiring the workers have been achieved without the savings in manual labor having repercussions on the reduction of the average number of personnel on the staff, thus without the corresponding growth in productivity, is due largely to the unsatisfactory quality of the labor norms; in the specialized literature, the application of the basic principle of overall piecework--1 percent of pay for 1 percent of production--is allowed only on the condition that the labor norms be of suitable quality. The deficiencies that have existed in the quality of the norms are observed with us in the fact that the degree of achievement of the pay has exceeded in many cases the degree of fulfillment of the plan for physical output with piecework in general and with overall piecework in particular;

e) At the same time, it is necessary to improve the records of the collective and individual results with a view to the differentiated stimulation of the contribution made by each working person; the current records are unsatisfactory for ensuring and raising the efficiency of any collective form of pay.

Whatever may be the concrete forms for stimulating the promotion of the norms with minimum consumptions of manual labor, it must be borne in mind that the size of these incentives should provide for the necessary correlations between the growth of pay and the growth of labor productivity, as well as the reduction of the cost of the manual labor per unit of product. We can speak of good efficiency in the forms of pay, in the pay system in its entirety, only if these correlations are achieved, if the labor norms and the material incentives favor the respecting of them. The enterprises that have devoted constant attention to improving the labor norms in the process of experimenting with overall piecework or in the spadework for applying this form of pay beginning on the date of 1 September of this year are achieving sensible correlations between the labor consumptions, the physical output, the labor productivity and the pay of all worker personnel.

12105

CSO: 2700/9

EFFORTS TO UTILIZE DOMESTIC RAW MATERIALS

Bucharest REVISTA ECONOMICA in Romanian No 35, 2 Sep 83 pp 6, 30

[Article by M. Ianculescu, director of the Central Union of Consumer Cooperatives: "The Complex and Efficient Utilization of Local Raw Materials"]

[Text] An integral part of the plan for economic and social development of Romania in the current 5-year period, the Program Regarding the Development of Small-Scale Industry on a Territorial Basis provides for an increase of more than 60 percent in the commodity output from 1980 to 1985 and a doubling of the volume of services for the population. At the Conference with the Basic Activities in the Cooperative System for Production, Purchases and Sales of Commodities, the Artisan Cooperative System, the Agricultural Production Cooperative System and the People's Councils, Comrade Nicolae Ceausescu made an extensive analysis of small-scale industry and services and of the role of this in the economy, establishing orientations and tasks for more markedly increasing the output by fully utilizing the resources existing in each county and, respectively, increasing the percentage of its output to 18-20 percent of the industrial output of the country by 1990.

According to the program adopted, small-scale industry must become more and more an important factor in the development of the base of raw materials and supplies, in the utilization of the resources that are found on a local level, in the development of the production of construction materials, in the making of products from remnants and other materials available at the producers, and so on. Through the specific character (small units with wide territorial distribution and diversified production), small-scale industry should and can use the local raw materials that large-scale industry cannot utilize. Starting from these requirements, the cooperative system for production, purchases and sales of commodities has acted and is acting to develop its own base of raw materials and supplies from local resources. In this regard, there has been established an extensive program of steps that defines for the 1983-1985 period the tasks and the growth that will be achieved in developing both the base of raw materials and the production at the level of each cooperative organization, depending on the specific character of the zone in which it operates.

A High Potential of Material Values

The main directions in which the utilization of local raw materials by the units of the cooperative system for production, purchases and sales of commodities was oriented were the following:

The drawing of /the mineral resources existing in accumulations and deposits of small proportions/ [in boldface] (mineral aggregates and building stone, clay, limestone) into the economic circuit. In accordance with the tasks, the cooperative system for production, purchases and sales of commodities has organized specialized units for the utilization of mineral resources with a view to their use in construction in various localities of the country, usually in the vicinity of the consumption points. Ballast pits using simple means to extract sand, gravel and building stone have been organized--and the action is continuing--for the production of mineral aggregates and building stone. At present, ballast pits and quarries are operating within 17 county unions, including Arad, Bacau, Cluj, Dimbovita, Hunedoara, Prahova and Vilcea. The provisions for the first half of this year were overfulfilled by more than 7 percent. The production will attain in 1985 a value 7.4 times higher than in 1980. These raw materials are used both for their own activities of production and services, in construction and in investments under their own supervision and for direct sale to the population. With regard to achieving the production of bricks, ceramic blocks and folk ceramics, the units in the system exploit clay, a cheap raw material, distributed widely in our country and processed in a network that includes a large number of shops. The main centers producing folk ceramics belong to the Harghita, Suceava, Mures, Covasna, Constanta, Bihor and Vilcea county cooperative unions, within which a wide range of ornamental and household articles of ceramics are made.

In the zones where there are resources of limestone, the exploitation of it has been undertaken in this very year and the technological process for obtaining quicklime has been organized. Low-capacity kilns, burning brush and deadwood from nearby forests, are usually built. Thus far, 15 units for lime production have been organized and are operating in 11 counties, with the action undergoing continual development. It is anticipated that the lime output in 1985 will be 20 times higher than the results in 1981.

/Wood from windfallen trees and forest sanitization/ [in boldface]. Besides the wood allocated in the balance sheet, the units in the cooperative system for production, purchases and sales of commodities have turned to using both for productive purposes and as fuel or construction material the wood gotten from hard-to-reach places, windfallen trees, or coming from forest sanitization. For this purpose, workers have been drawn from the inhabitants of the villages, and in the zones without cooperatives, workers who have draft animals. The value of the wood that will be exploited in the ensuing years will be 6.4 times higher than that in 1981 and the value of the output that will be obtained will be about 6 times higher than the results in the same year.

The wood so exploited requires prior sorting before use. The purposes will be different, with the wood being able to be used both as raw material in the production of small furniture, articles of folk art and handicraft, small objects

for home and household use, and in the activity of performing services for the population, and as fuel. The provisions for the first half of this year were fulfilled by over 230 percent; the biggest producers of articles from wood gotten from hard-to-reach places or coming from forest sanitization are the Alba, Bacau, Buzau, Covasna, Caras-Severin, Maramures, Neamt, Prahova, Satu-Mare and Vilcea county cooperative unions. The percentage of the production obtained by utilizing the wood exploited will rise continually: in 1985, 40 percent of the production of small furniture, 80 percent of the production of folk art and handicraft from wood, 75 percent of the production for home and household use from wood and 60 percent of the production of clothespins, destined mostly for exportation, will be achieved from wood exploited on a local level.

/Wild or cultivated sporadic plants/ **[in boldface]** (willow, hazel and birch, cattails, reeds, sorghum, sedge). Considering the utility of and the high demand for articles woven from these resources, there must be intense concern for buying these raw materials, organizing one's own crops or harvesting on the land belonging to the silvicultural inspectorates and the CAP's **[agricultural production cooperatives]**. The results obtained thus far in this direction are remarkable; sections for weavings from these materials are operating in over 25 counties, with over 60 percent of the output being destined for exportation. The units of CENTROCOOP **[the Central Union of Consumer Cooperatives]** organized their own crops by planting willow cuttings on an area of 180 hectares and harvesting 224 tons of willow, valued at 400,000 lei. In 1985, a 26-fold increase in the amount that will be harvested is expected and the value of the production of weavings from willow switches will be 2.8 times higher than the results in 1981. The weavings from hazel and birch switches, in demand both on the domestic market and for exportation, will attain a value of 700,000 lei, as compared with 240,000 lei achieved in 1981.

/Agricultural byproducts/ **[in boldface]** (straw and corn leaves). Weavings from straw and corn leaves occupy an important place in the production activity of the units in the CENTROCOOP network. This year, the production of articles woven from corn leaves and straw, which started in the Covasna and Harghita county unions, has begun, with new units beginning their activity by the end of the year within the units in the counties of Braila, Ialomita, Maramures, Prahova and Bistrita. The raw materials are obtained from their own crops, through cooperation with the agricultural production units or through purchase from private producers (especially in the zones without cooperatives). The processing is done both in specialized shops and by using home industry, obtaining a variety of products like hats, handbags, various baskets, belts, dusters, soles for sandals and so on. In 1985, the production of weavings from straw will attain 5 million lei, and that from corn leaves, more than 300,000 lei.

At the same time, the processing of agricultural products suitable for industrialization and preindustrialization also constitutes a special concern. It is a question of the industrialization and preindustrialization of vegetables and fruit brought from the population on a local level, for example, which are done in units of relatively low capacity, using spaces and facilities that do not require big investments.

The Expansion of the Area of Utilization of the Resources

In order to perform well the tasks provided in the program for developing the base of raw materials from local resources, each unit has taken steps to consolidate and develop the existing sections; on the other hand, new units have been set up to exploit raw materials and supplies from local resources, along with organizing the activity of processing these resources into goods for the market supply and for exportation. In view of the necessity of drawing additional quantities of local raw materials into the production circuit, concrete measures have been established at the level of CENTROCOOP to expand the area of activity of its units in this field, particularly in the direction of recovering and recycling resources of raw materials and energy. To this end, the activity is oriented in four main directions of action that, we believe, will permit in the current stage the attraction of recoverable materials by the processing units under conditions of high efficiency: materials recovered from the population; goods brought from the population for reconditioning and utilization; recoverable and reusable materials from industry for utilization; recoverable and reusable materials from their own activities.

It should be noted that the activity of buying used objects for home and personal use from the population with a view to reconditioning and utilization started this year. Thus, by overcoming the difficulties that result from the territorial dispersion of the units that can do reconditioning and from the still incomplete technical facilities, a network of about 800 units of this type, operating in communes with over 5,000 inhabitants and in urban centers, has been organized.

There was intensified, with good results, the collaboration with different material-balance-coordinating ministries for the collection of reusable textile, leather, plastic, metallic and glass materials--materials compatible with the production structures of the cooperative system for production, purchases and sales of commodities, which thus may be utilized under conditions of as high economic efficiency as possible. In addition, the expansion of the range of reusable materials drawn from the enterprises of national industry for utilization in our production units is now being pursued.

Through the use of raw materials and supplies from local resources and of recoverable materials in the production and service activity and through the utilization of new energy resources, in 1985 the value of the production that will be obtained on the basis of them will represent about 40 percent of the provisions of the 5-year plan. This is why the units belonging to CENTROCOOP are called upon to intensify their efforts regarding the better administration and utilization of material resources, the recovery of all reusable resources and their reintroduction into the economic circuit, and the obtaining of a greater volume of products of high quality and complexity from the same quantity of raw materials and supplies.

12105
CSO: 2700/9

IMPROVEMENT OF PRICE POLICY DISCUSSED

Bucharest REVISTA ECONOMICA in Romanian No 35, 2 Sep 83 pp 10-11

Article by Dr C. Tudoran: "Prices--an Important Factor in Cost Reduction"; passages enclosed in slantlines printed in boldface/

Text At present, the more marked reduction of production expenses, especially of material expenditures, an essential factor in achieving the planned rate of growth, in further improving the living conditions of the working people, constitutes a major requirement in all fields of activity. While a 1-percent reduction in the percentage of material expenditures in the national product in 1965 was equivalent to a 3.4-billion-lei increase in national income, the same percent reduction in 1982 meant a 14.4-billion-lei increase in national income. The intensification, in 1982, of the concern for reducing the consumptions of raw materials, supplies and energy resulted in a savings of 8.4 billion lei in comparison with 1981, substantially exceeding the results in the preceding years. Judging critically the results obtained and the possibilities existing in this field, the national conference in December 1982 and, later, the plenum of the RCP Central Committee in March of this year established that a much more marked reduction in material expenditures--70-80 lei per 1,000 lei of commodity output--should be achieved in the time that still remained in the current 5-year period, so that we can end the 5-year period with a substantial increase in national income.

An active role in fulfilling this priority task laid before our economy by the party also goes to the price system, which acts in the direction of cost reduction through a number of specific methods, in a close interaction with the other component elements of the economic and financial system and especially with the planning, material-encouragement and self-administration systems.

The Minimization of Costs--the Maximization of Efficiency

The essential condition so that prices may orient the enterprises in the direction of minimizing the costs and maximizing the efficiency of production constitutes their economic substantiation on the basis of the labor expenditures required. The practice formerly existing in our country, of financing part of the production expenses from the budget, especially in the branches producing raw materials and energy, did not stimulate the efforts to economize on them and distorted the real efficiency of the economic activity. The measures to improve all price categories, applied in past years, have led to the formation of more sensible price correlations between primary products and finished ones, which stimulate the expansion of the production of raw materials and energy and their economization in the processing and consuming branches, constituting a strong impelling factor in reducing the specific material and energy consumptions in making the products.

Under the conditions of the indirect, value-based records of the socially necessary expenditures, the matter of dimensioning as sensibly as possible the essential elements of prices--/cost/ and /profit/--is decisive for setting as economically substantiated prices as possible. According to the legislation in force, /the average costs at a branch level/, precalculated ones that are determined by taking into calculation the production expenses of all units that produce the same products and have normal operating conditions, are usually the basis for setting the prices. The formation of the prices on the basis of the average branch costs is a requirement of the law of value, which generates among producers the competition for obtaining higher profits through cost reduction. Obviously, the setting of the prices according to this principle leads to the differentiation of the profitability of the enterprises in accordance with the relationship in which their individual costs lie with regard to the average social costs that are the basis for the prices, which can have some implications for the possibilities of achieving financial self-administration in the units with much higher expenses than the average ones. Starting from these implications and from the economic and financial mechanism's requirement that all activities be done efficiently, with profitability, some economists have proposed the setting of differentiated production prices in industry, in a manner corresponding as much as possible to the individual production conditions, along with maintaining the single delivery prices. Besides the fact that it would highly complicate the cost records and planning and would amplify the processes of financial redistribution within the branch, the extreme differentiation of the production prices would mean depriving them of the role of a social standard of the social labor expenditures that indicates the less efficient utilization of the material, financial and human resources in some units. In practice, this would be equivalent to giving up the use of prices as an economic factor in cost reduction and to limiting them to a mere instrument for passive recordkeeping of the results of the enterprises.

Another side of the above-mentioned implications consists of the tendency of centrals to base the prices on the highest costs, registered by the units with poor technical facilities, thus providing themselves a reserve for easily achieving much higher profitabilities in the units with more favorable conditions. The consequences of such a solution are easy to foresee: the

exaggerated profitabilities do not lead to efforts at cost reduction, and in the case of the means of production such excessive prices uselessly increase the costs in the consuming branches, causing the percentage of material expenditures in the national product to increase.

So that the level of the prices may orient producers toward reducing the production expenses to the minimum, in the Law on the Price and Rate System it is stipulated that /in setting the prices all elements of expenses should be determined on the basis of standards and consumption rates/, and the higher costs, caused by irrationally dividing among units the manufacture of the products, and any other unjustified expenses, resulting from poor organization of production and labor, should not be taken into consideration. To the same end, the costs of products made in new sections or production units should be taken into calculation--up to the attainment of the projected parameters--at the level provided in the approved technical and economic documentation. It must be said, however, that in the current practice there are no few cases when the precalculated costs proposed by enterprises and centrals for setting the prices are excessive to an appreciable degree, since they do not take into account the full utilization of the production capacities, the reduction of the specific consumptions and the growth of the labor productivity to the level of the targets set, and the utilization of reusable materials to a greater extent. Consequently, in analyzing the price proposals, it is necessary to expand the critical analysis of the costs proposed by the economic units, in order to discover the "reserves" included in the costs and to set as thoroughly substantiated prices as possible that would lead to the further reduction of production expenses.

In order to secure the minimization of the costs as early as the phase of designing the new products, the practice of setting /ceiling prices/ for all machinery, equipment and technological lines that are to be manufactured in series or in a one-of-a-kind setup has been generalized for several years. These prices are determined on the basis of a simplified methodology by the same bodies that also set the prices proper, at the same time as the finalization of the study for assimilating the products. They represent the maximum level that cannot be exceeded in subsequently setting the production and delivery prices. The possible exceptions, in substantiated cases, are approved by the higher-ranking body of the one that has the power to set the fixed prices within the limit of the ceiling price. In order to increase the effectiveness of this cost-reduction instrument in the phase of preparing the new products, it is necessary to make some specifications in the methodology for setting the ceiling prices and to pursue more consistently the observance of them in setting the production and delivery prices before starting to manufacture the new products.

/The utilization of reusable materials and reconditioned parts and subassemblies on a wider and wider scale/ constitutes a more and more important source of economization of material resources and of reduction of the prices of products. Through the establishment of more sensible correlations in past years between the prices of reusable materials and those of primary resources of raw materials, an increase in the personal interest of the enterprises in utilizing them has been provided. Recently, through the improvements that were made in

the branch standards for setting the prices of products made from substitutes, premises were created so that their use may help to the highest degree to reduce the manufacturing costs and the prices of the respective products.

Prices per Units of Measure Directly Connected with the Purpose of the Products

/The sensible selection of the units of measure according to which prices are set/ constitutes a method of acting through prices to utilize raw materials as rationally as possible. Through the more and more marked shift, in recent years, from setting prices per unit of weight or volume to setting them per units directly connected with the utilization of the products, such as units of length (linear meter) or area (square meter), premises exist for reducing the specific consumptions of raw materials and supplies and for lowering the expenses of the customers for satisfying the same needs. Such prices per efficient units of measure were recently set for metal sections, strips and plates, sheets of polyethylene, paper and so on. Under the conditions of the prices recalculated according to units of measure directly connected with the purpose of the products, determined by taking into account the average tolerances allowed by the standards in force, the producers can achieve a cost reduction by making the products to negative tolerances as close as possible to the minimum limit. At the same time, the customers, no longer paying for products according to tonnage, achieve a reduction in the expenses for materials, since they no longer pay for the extra weight resulting from making the products to positive tolerances, with high consumptions of materials.

The matter of bringing and putting into practice the new methodology of cost calculation, perfected on the basis of the tasks set by the RCP National Conference in December 1982, will have a positive effect on cost reduction. By following the expenses according to primary elements, a more precise delimitation of the material expenditures and a clearer indication of the factors that influence their evolution will be provided, which will allow a more exact judgment of the efforts made by enterprises to reduce costs.

/The consistent reflection in prices of the technical and functional parameters of the products/, which characterize the use value of the products, represents an effective means of securing the more objective substantiation of the prices, especially under the conditions of difficulties and uncertainties regarding the exact determination of the costs. In this regard, the regulations in force stipulate that in setting the prices there must be provided the correlation of their level as compared to that of the reference (standard) products on the basis of a rigorous conception both from the viewpoint of costs and from the viewpoint of use value. This requirement of the law of value, of taking into account in price setting the organic interdependence between value and use value, is very clearly specified in the methodological regulations in force. Thus, they stipulate expressly that the necessary correlations between the prices of the various products, which express the relationships between their use values, concretized in the technical and functional characteristics of durability, aesthetics, comfort and so on, must be taken into account in setting the prices. For means of production, it is also stipulated that their prices, in comparison with the reference products, must be below the ratio between their technical and functional parameters, thus ensuring their relative cheapness through the setting of lower prices per unit of useful effect.

Since the technical and functional characteristics of the products are relatively numerous and hard to quantify, in practice, especially at the level of the economic units, the correlation of the prices is often done mainly on the basis of the costs, instead of being based on a multilateral analysis of the efficiency of the new products for the producer and for the customer. Under the conditions when the costs are not rigorously set, the underestimation of their correlation from the viewpoint of use value constitutes a real danger regarding the setting of unjustified prices, with all the negative implications that result from this for the national economy.

In order to facilitate the comparison of new products with existing ones from the viewpoint of use value, thus helping to objectify the costs that are the basis for the prices, /it would be useful--through the combined efforts of the specialists in research and design, in production and in the standardization bodies--to establish for each homogeneous groups of products, particularly machinery and equipment, the main technical and functional parameters and the proper methods of quantifying them, which would serve as a basis for setting the prices of new products, along with the costs, of course. Such parameters should be provided in the standards and revised periodically, depending on the changes occurring in the technology or the utilization of the products/.

Under the conditions of the current economic and financial mechanism, when a big part of the profits made by the enterprises remain at their disposal for forming the development and material-encouragement funds, premises have been created so that the size of the profitability taken into calculation in price setting may become an efficient instrument to stimulate the assimilation of new products with higher efficiency. In the current methodological regulations, it is stipulated that in setting the prices of such products it is possible to take into account a higher profitability than for similar products that satisfy similar needs. In order to become operational and to avoid arbitrariness in setting the prices, /it would be necessary to work out the methodological instruments for determining the additional efficiency of the new products and for establishing a sensible ratio between their higher efficiency and the additional profitability/.

At the same time, we feel that the task of achieving a significant cost reduction requires /the reexamination of the current basis for calculating the profit/. At present, the profit is determined according to the complete cost of the products, including the expenses for the materials and subassemblies procured from another unit. An exception is made only for some complex equipment, with a high volume of "collaboration," which is subtracted from the costs in calculating the profit. The calculation of the profit in relation to the complete cost is not of a nature to stimulate the reduction of material expenditures and the replacement of more costly materials with other, cheaper ones. The solution of /utilizing the processing expenses/ (costs minus the materials, fuel and energy procured from third parties) /as a basis for calculating the profit for products/, generalized in past years in many socialist countries, seems more rational.

Synthesizing the above remarks, it can be stated with sufficient grounds that the price system--understanding by this both the level and correlations of the

prices in force and the methodology of forming the prices--has many possibilities of acting as an efficient factor in reducing the production costs as markedly as possible. The sensible application of the prices in force and of the methodology of forming them constitutes the essential condition for achieving these possibilities in practice, for stimulating the reduction of costs. At the same time, the concretization of provisions on principles existing in the price legislation by working out applicational instruments, and the reconsideration of technical studies in accordance with the current conditions, would be of a nature to increase even more the positive role of prices as a factor in raising the efficiency of production.

12105

CS0: 2700/9

MALDISTRIBUTION OF ASSETS DISCUSSED

Belgrade SOCIJALIZAM in Serbo-Croatian No 6, Jun 83 pp 802-823

[Article by Ivan A. Rankov: "Material Basis and Economic Position of Yugoslavia's Social Economy"]

[Excerpt] The size of the economic influence which the government administration has on commodity-money flows can be best evaluated on the basis of balance figures, which furnish the evidence that our economy is managing and possesses only about 45 percent of the total value of social property. That other, far larger, part of social property, about 55 percent, is allocated on the basis of orders and regulations of the government administration to purposes which lie outside the circulation and functioning of the organization of associated labor. How much of the value of social property is outside the functioning of the social economy can be best seen from the survey below of balance figures expressed in absolute amounts of billions of dinars and relative proportions by years:

<u>Value of Property</u>	<u>Absolute Amounts</u>			<u>Relative Proportions</u>		
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Total value	5,330	7,468	10,464	100.0	100.0	100.0
Functioning	2,319	3,334	4,723	43.5	44.6	45.1
Not functioning	3,011	4,134	5,741	56.5	55.4	54.9

These balance figures unambiguously show that the magnitude of the value of resources making up social property which is outside the functioning and circulation of the organization of associated labor is considerable. According to these figures, about 55 percent of the value of those resources is not functioning. Associated labor does not manage those resources, although it bears the costs of allocations outside its functioning. Associated labor has absolutely no influence whatsoever on those resources because they have been placed outside the framework of the organization of associated labor. This is because these are resources placed in time deposits in banks and the resources of sociopolitical communities governed by regulations and instructions of the competent government bodies and agencies. This huge amount of capital outside the functioning of associated labor furnishes the factual evidence as to the size of the economic power and importance of the economic function of the government administration to the circulation of capital in

the process of overall social reproduction and to equilibrium in the movement of physical-financial flows of society as a whole under our conditions for the conduct of economic activity. If we also add that these allocations are made regardless of the wishes of associated labor, then there is good reason to observe that associated labor in our country is working and managing with smaller powers than the government administration and that our government administration has exceedingly great influence on the conditions for the conduct of economic activity and that by and large it should bear responsibility for the situation in which the social economy has found itself.

The balance figures given above also provide the evidence that associated labor is managing and using that portion of resources it possesses in an economically responsible way and within the limits of economic equilibrium. Which de facto means that with that portion of resources which depends upon it associated labor is truly achieving very constructive results and that there is no economic basis for making any changes in that part of social property. The figures on the balance of the condition of the social economy contain a very serious warning: were we to change the relations thus established in that portion of resources, we would probably bring about still greater disturbances in the overall process of social reproduction. Which is why work is being done and the proposal being made for the economic policy measure adopted in our country to be unfailingly based on scientific analyses and data concerning the true condition of resources managed and possessed by associated labor--in this sense we have good reason to anticipate constructive processes and more stable conduct of economic activity. All of this indicates very persuasively that the true solution lies in freezing resources allocated to unintended purposes and therefore outside the functioning and circulation of the social economy.

2. Analysis of the Total Resources of the Social Economy

When we analyze the overall condition of the resources of the social economy, there is good reason to observe that the composition of allocations indicated on the asset side of the balance is very unfavorable. This is because the figures show about 59 percent to be committed to fixed capital and 41 percent of the total assets of the social economy committed to working capital. The amount of resources committed to fixed capital and the amount to working capital can be best seen from the summary below of balance figures expressed in absolute amounts of billions of dinars and relative proportions by years:

<u>Amount of Resources</u>	<u>Absolute Amounts</u>			<u>Relative Proportions</u>		
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Value of assets	5,330	7,468	10,464	100.0	100.0	100.0
Fixed capital	3,125	4,384	6,174	58.6	58.7	59.0
Working capital	2,205	3,084	4,290	41.4	41.3	41.0

According to these balance figures, we can truly state that the composition of allocations on the asset side of the balance of the social economy is very unfavorable. At the same time these figures show that relative proportions have not essentially changed over the 3 years, although absolute amounts have

been recording a quite considerable growth over the previous year. In addition, we should point out that these figures indubitably indicate the very firm stability of the proportions we have referred to, although administrative bodies and agencies have in that period been taking a number of measures on behalf of working capital.

Analyzing the relations between fixed and working capital, we have good reason to observe that in our country economic processes in production and distribution have been occurring spontaneously, following a pattern which is a product of the situation in which our economy finds itself. Precisely for that reason the measures of the government administration have not been felt recently, since everything is still developing according to the old program and is still governed by the economic laws which practice itself has devised. All of this clearly shows why it is very difficult in our country to achieve the goals of the economic policy of the country as a whole.

The observations made above are confirmed by the economic line of division in the structure of the resources of the social economy, that is, by the line of division between the fixed capital and working capital which is functioning. For example, according to the balance figures, the economic line of division in functioning resources between fixed capital and working capital would be as follows in absolute amounts and relative proportions:

<u>Line of Division</u>	<u>Absolute Amounts</u>			<u>Relative Proportions</u>		
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Value of assets	2,319	3,334	4,724	100.0	100.0	100.0
Fixed capital	1,703	2,470	3,554	73.4	74.1	75.2
Working capital	616	864	1,170	26.6	25.9	24.8

These balance figures unambiguously show that functioning allocations are being used within the limits of economic profitability ascertained in their time by Marx and his predecessors. In practical terms, this de facto means that economic laws do prevail in that portion of resources, functioning resources, managed by associated labor, in both our production and our distribution. In support of this observation the figures given above show very clearly the changes in both quality and quantity of functioning resources which have occurred in the division between fixed and working capital. That is, in the structure of functioning resources we have ascertained, the share of working capital has changed 1.8 percentage points to the advantage of fixed capital, which unambiguously signifies that the material foundation of associated labor is becoming stronger. This feature is not evident if we analyze the total resources on the asset side of the balance for the social economy. Accordingly, this is still another documented proof that problems of an economic nature lie in the frozen resources of the social economy.

On this occasion we should emphasize once again that according to Marx and his predecessors the economic line of division in total available resources ranges in the limits of at least 80 percent of fixed capital and 20 percent of working capital in industry, while in agriculture this ratio is tolerated down to 60 percent fixed capital and 40 percent working capital in the total

resources of the organization of associated labor. That is, on the basis of an analysis of figures on total available resources of the social economy, our economy is not achieving those proportions in its capital that would conform to the economic criteria stated above. To the contrary, an analysis of the balance figures also shows persuasively that Marx's own proportion in resources is being adhered to in the functioning portion of total resources. All of this indicates very persuasively that under the conditions of our economic activity economic rationale does prevail in the process of the circular movement of physical-financial flows and that associated labor is managing the functioning portion of resources within the limits of economic profitability achieved by the economy of the most advanced countries in the world.

a) Analysis of Fixed Capital

As we have already observed above on one occasion, the fact that the legislation embodying the system has not been in conformity with socioeconomic relations has had an exceedingly great influence on allocation and the normal functioning of the circular movement of the resources of the social economy which takes place on the basis of pooling labor and capital in the context of worker self-management. In view of the historical development of economic relations in society, even under our conditions for the conduct of economic activity the government administration ought to operate above all within the limits of the economic interests of associated labor and the physical-financial equilibrium of society as a whole. Only if socioeconomic relations are harmonized in that way will it be possible to ensure controlled growth of expenditure both within the limits of the newly created value and also within the material capability of the country as a whole. These patterns of expenditure could guarantee more stable production and distribution of goods and services and far more stable socioeconomic relations both in the country and also with foreign countries.

Under the conditions that now prevail in the conduct of economic activity, we can confidently say that constructive developments cannot be expected in the process of overall social reproduction because economic relations are being established within them which are contrary to our political commitment. These and similar observations can best be scrutinized by examining allocations to fixed capital of the social economy. That is, it is clearly evident from the balance figures that our resources and the value of our fixed capital are committed to intended and unintended purposes, as can best be ascertained on the basis of the survey below of figures from the balance of the condition of the social economy expressed in billions of dinars, in absolute amounts and relative proportions:

<u>Value of Property</u>	<u>Absolute Amounts</u>			<u>Relative Proportions</u>		
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Total value	5,330	7,468	10,464	100.0	100.0	100.0
Working capital	2,205	3,084	4,290	41.4	41.3	41.0
Fixed capital	3,125	4,384	6,174	58.6	58.7	59.0
Functioning capital	1,666	2,422	3,497	31.2	32.4	33.4

Table (continued)

Value of Property	Absolute Amounts			Relative Proportions		
	1980	1981	1982	1980	1981	1982
Capital in the stage of preparation	393	499	623	7.4	6.7	6.0
Capital not functioning	78	94	134	1.5	1.3	1.3
Assets placed in time deposits	951	1,321	1,864	17.8	17.7	17.8
Cash	37	48	56	0.7	0.6	0.5

These balance figures unambiguously show that the major portion of the value of our social property committed to fixed capital is being used for other purposes as well. According to these figures, in 1980 about 32 percent of total resources, that is, about 53 percent of fixed capital, are being used for the purposes intended, that is, they are serving the function for which they were intended. The remainder of fixed capital, about 25 percent of total resources and about 47 percent of this capital, is being used for other purposes; that is, it is not functioning and is by and large outside the basic organization of associated labor. According to these figures, one can state with good reason that this condition of fixed capital has also undergone hardly any change in recent [original reads "coming"] years.

These relations that have come about in the fixed capital of the social economy undoubtedly reflect the conditions for the conduct of economic activity and the economic functions of the government administration. We should also add to this that our economy is carrying on its economic activity with equipment that has been largely written off (more than 66 percent). Accordingly, there is good reason to put this question to public opinion and to participants in the debate: Where are those huge investments which have brought our society into a very difficult economic position, when the balance figures document the point that even simple reproduction is not taking place in the economy. All of this undoubtedly confirms once again that our associated labor is working under very difficult and uneven conditions for economic activity and that that is mainly why it is achieving unequal results.

In support of these observations we will give figures which clearly show the status of equipment of the social economy expressed in absolute amounts and relative proportions:

Equipment	Absolute Amounts			Relative Proportions		
	1980	1981	1982	1980	1981	1982
Purchase value	1,264	1,988	2,853	100.0	100.0	100.0
Adjustment of value	786	1,275	1,896	62.2	64.1	66.5
Present value	478	713	957	37.8	35.9	33.5

These official balance figures require no comment. The reason for this is that these figures provide very good evidence that the status of equipment of

the social economy has only been deteriorating from year to year in the period under review. We should also add to this that if we want larger output, larger exports, better supply of the domestic market, then we have to change our attitude toward investment in the equipment of the social economy.

b) Analysis of Working Capital

Allocations of working capital also warn of the unfavorable status of resources committed to the needs of turnover. According to the balance figures of the social economy, resources for current purposes are also being used inefficiently and are not subject to anyone's control. Precisely for that reason we have a need to constantly augment these resources, as can be seen from the summary below of balance figures in absolute amounts and relative proportions:

Value of Property	Absolute Amounts			Relative Proportions		
	1980	1981	1982	1980	1981	1982
Total value	5,330	7,468	10,464	100.0	100.0	100.0
Fixed capital	3,125	4,384	6,174	58.6	58.7	59.0
Working capital	2,205	3,084	4,290	41.4	41.3	41.0
a) Money assets	513	657	863	9.7	8.8	8.2
Giro account and cash drawer	114	144	177	2.1	1.9	1.7
Securities	279	374	510	5.3	5.0	4.8
Petty cash and miscellaneous	120	139	176	2.3	1.9	1.7
b) Inventories	684	986	1,358	12.8	13.2	13.0
c) Accounts receivable from customers	486	693	1,030	9.1	9.3	9.8
d) Assets in the accounting process	522	748	1,039	9.8	10.0	10.0

The figures given above unambiguously show that the problems of the social economy's lack of working capital lie in the fact that money assets have been allocated outside basic organizations of associated labor, not that they have been spent on investment projects. At the same time these figures show that our economy has more than 510 billion dinars lying frozen in commitments tied up for several years. We should also add that our economy is operating, stated in money terms, with about 233 billion dinars, that is, only 2.2 percent of total resources. We should emphasize in this connection the rule which is well known in the world that the indispensable minimum of money in circulation should be 6 percent of the total assets of an organization of associated labor.

If we analyze the resources of the social economy as of 31 December 1982, we can observe that the balance of its condition show a total value of social property greater than 10,464 billion dinars. Of that amount the value of property in the form of money amounts to 2,783 billion dinars, or 26.6 percent of total resources, while 7,681 billion dinars, or 73.4 percent of the value of social property, is in the form of claims and in physical form.

These observations made on the basis of the balance figures obviously show that a very large amount of the resources representing the value of social property is in the form of money. Even so, our economy is illiquid, and it sees the way out in enlargement of working capital, and that in money form, without going into an assessment of the level of costs which have brought about this solution, since society is covering those costs.

In following various discussions, reading periodicals and examining the solutions being proposed, one can conclude that our economy, government bodies and agencies and participants in debates are readier to adopt the solutions that have been proposed regardless of the price that will be paid and regardless of where the resources of society as a whole come from. Unfortunately, solutions of this kind are being accepted without an examination of the consequences--instead of the way out of this situation being sought in freezing assets committed to unintended purposes and thus bringing "own" capital into circulation and freeing the capital of others, thus reducing costs. The situation as to the money assets of the social economy can best be seen from the summary given below of balance figures on the situation for 1982, expressed in absolute amounts in billions and in relative proportions:

<u>Indicator</u>	<u>Amounts</u>	<u>Proportional Breakdown</u>
Value of social property	10,464	100.0
Assets in physical form	7,681	73.4
Assets in money form	2,783	26.6
a) Assets placed in time deposits	1,864	17.8
b) Securities	510	4.9
c) Other money commitments	176	1.7
d) Cash	233	2.2

These figures from the balance support the point that our social economy has about 26.6 percent of the value of its property in money form. If we compare this amount of money assets to gross income, the computation shows that the turnover coefficient last year was 2.3 ($6.1 \div 2.8 = 2.2$). This calculation based on the balance figures shows unambiguously that the money assets of our social economy are circulating very slowly. However, if we compare the total amount of cash with gross income, the result we get shows that the turnover coefficient is about 26.2 ($6.1 \div 0.233 = 26.2$), which is de facto unfeasible. Nevertheless, under the conditions of our economic activity, according to these figures, one clearly sees that in spite of everything it is possible to carry on trade of this magnitude even with little money. That is, under the conditions of our economic activity something like this can be achieved because of the unlimited possibility of using the assets of trading partners through mutual credit financing and fictitious securities.

These observations, arrived at from the balance figures, call our attention to the dualism of operating performance, which makes it possible for the condition of the material basis of associated labor to be manipulated. Accordingly, it ought not to be allowed in the process of self-management decision-making for the associated worker's performance to depend on the accounts and

figures one starts with. Especially when we are aware that in our country the entire process of social reproduction takes place on the basis of self-management, through the pooling of the assets of society and live human labor. The effects of the proposals made above have inestimable importance because they do not require additional investments and do not create new costs for the social economy to open up the process of the circular movement of the assets committed which have been allocated to unintended purposes. Especially when we know that we are talking about resources which have reached an amount greater than 55 percent of the total resources of the social economy.

3. The External Liquidity of the Country as a Whole

Differing assessments are also made concerning the country's external liquidity. However, it bothers no one that the problems of this sector are still being dealt with in the same way. That is, for years we have invested very large resources of the social economy in stimulating exports of goods and services in order to improve foreign economic relations, while at the same time very great efforts are being made to increase foreign trade and bring it into line with the economic interest of associated labor. We should emphasize in this connection that for years these matters have been dealt with in the same way--through payments-balance restrictions and by stimulating exports of goods and services. Aside from that, we should also emphasize that for years all of our disturbances in foreign economic relations, caused by the measures referred to above, have ultimately been corrected by devaluation of the domestic currency. It is also important to mention that this practice has gone on for years without our ever having addressed the effects of these measures, nor the extent to which these measures have raised costs, nor the question of who is taking the brunt of that kind of behavior.

Even though for years we have resolved these questions with devaluations of the domestic currency, they have still remained unresolved. Nevertheless, we have not drawn a lesson from previous years, and again on this occasion we have attempted to solve the problems of the country's external liquidity through devaluation, although our past experience shows that devaluation of the domestic currency is not a real solution. Devaluation at this point cannot be a real solution, precisely because its effect is to impose new costs on the already scanty development potential, on production, and indeed on society as a whole.

Another reason why devaluation of the domestic currency is not the right solution, aside from the observations made above, is that those subject to these obligations are not materially capable of making the payments which have come due at this point. In practical terms, this means that in their activity they are not realizing foreign exchange, nor has the legislation in effect made it possible for them to purchase in a regular way within the country the amount of foreign exchange indispensable to them, and a standstill has therefore occurred in the meeting of the obligations which have come due.

The observations made above are confirmed with strong evidence by the official figures of the competent administrative agency concerning the total

inflow of foreign exchange, available foreign exchange reserves, assets abroad in the form of securities representing equipment sold on credit and the like. According to these figures, the total inflow of the current balance of payments for 1982 amounts to more than \$17,733.9 million. Assets in the form of securities which can be sold attain \$1,718 million, and foreign exchange reserves amount to more than \$1,676 million, all of which totals about \$21,127.9 million. Given that potential of foreign exchange, obligations come due in the amount of about \$4,903.1 million would probably not be such a great problem for the foreign banker as they are for bankers in Yugoslavia.

This means that our problem is not the problem of foreign exchange, but the conditions under which transactions are made with foreign means of payment, as can best be seen from the discussion below, which is based on the status of credit transactions concluded with foreign countries as of 31 December 1982.

According to the official data, up through 31 December 1982 the credit outstanding with foreign countries was as follows, in millions of dollars and with the proportions in distribution among users of the credit or those subject to the obligations abroad:

<u>Entity Subject to Obligation</u>	<u>Amounts in Dollars</u>	<u>Proportional Breakdown</u>
Value of credit contracted for	19,626.0	100.0
a) Social economy	6,216.5	31.7
b) The Federation	4,814.4	24.5
c) Commercial and other banks	8,595.1	43.8

These figures from the balance offer the evidence that only about 32 percent of total obligations under the foreign credits concluded are owed by those who realize foreign exchange on the foreign market through their own activity, by selling goods and services. These figures also show that about 68 percent of total credits are to be repaid by entities who do not realize foreign exchange through their own activity, and are therefore forced to go to the foreign exchange market. Since our own foreign exchange market is not functioning, these debtors are required to purchase foreign exchange to make repayment on the black market at the rate of exchange formed on that market. This is primarily why a panic occurred about the obligations that had come due to foreign countries, since difficulties related to the purchase of foreign exchange had come about even on that market.

This situation with respect to obtaining foreign exchange stands as a very serious warning about the importance of the measures being taken to straighten out the situation in this sector of economic activity. Especially when we realize that by devaluing the domestic currency we have created problems even insofar as domestic money is concerned. That is, by means of the devaluation we have raised the rate of exchange of the dollar and thereby facilitated still greater pressure on the dinar market--to pay the difference in rate of exchange on obligations come due and charges related to the importation of

equipment, goods and services. In practical terms this means that by carrying out the devaluation we have brought about a still greater shortage of dinars and disturbances concerning the purchase of foreign exchange, which is in fact why a standstill occurred in the process of circular movement of the very scanty resources, both dinars and foreign exchange.

In this particular case the competent authorities have been trying to resolve the shortage of dinar resources by narrowing the function of the social economy's working capital, and at the same time they have been altogether heedless of the effect of such a measure. There is every sign that the competent authorities are probably unable, or unwilling, to see that [the reason for] the shortage of dinars does not lie in working capital. According to the official balance figures, [the reason for] the shortage of dinars lies above all in commitments without backing, in concealed losses, in the outflow of accumulation as repayment obligations are discharged abroad, in mutual credit financing, in securities and the like, and then also in the increased costs resulting from the devaluation (higher operating costs because of differences in the rate of exchange, larger obligations because of higher customs and other charges), and so on.

All of this shows very clearly that even the measure related to working capital is not the right economic measure. It is not the right one precisely because it is not increasing the volume of dinar resources necessary to achieve equilibrium in relations disrupted by these expenditures. Accordingly, there is good reason to observe that by devaluing we have worsened the country's liquidity still more, both on the market for dinar funds, as well as on the market for foreign exchange necessary to meet the needs of the economy but also those of the country as a whole.

These balance figures also indicate very clearly the location of the problems arising out of the status of foreign credit relations. That is, according to these data, the banks bear the greatest responsibility for the situation with our country's external liquidity. On this occasion we should also point out that many well-known specialists, in spite of the balance figures which offer persuasive evidence of the true state of affairs in the sector of indebtedness, defend the relations between the economy and the banks by saying that the banks have borrowed in the name and on the account of associated labor.

Something like that is possible under our conditions for the conduct of economic activity, for banks to take credits abroad in the name and on the account of associated labor. However, the balance figures irrefutably show that those foreign credit resources were not committed to meet the needs of associated labor, but, on the contrary, those credit resources were mainly spent for purposes for which they were not intended. That is, the available figures unambiguously point up the fact that the banks have used most of the resources of foreign credit to improve their own liquidity by selling the resources of those credits for dinars. This is de facto the true answer to the question: Why is it that the banks are more in debt abroad than the social economy?

If we take as our point of departure the true status of the country's foreign exchange liquidity and obligations abroad to repay credit, these figures undoubtedly show that at the present moment the right thing to do would be to make it possible for foreign exchange to be sold and purchased in the regular way on the foreign exchange market. In the situation we are in this is the best way to bring the supply of and demand for foreign exchange into line with the material capabilities and needs of the country as a whole. And finally, we should emphasize that the foreign exchange market is also indispensable on behalf of the obligations abroad which are coming due in coming years.

The Economic Position of the Social Economy

The economic position of the social economy mainly depends on operating results and distribution of the newly created value, assuming that total available assets are used within the bounds of the criterion of a good businessman and economic rationale. Going back to Marx and his predecessors, gross income, as a standard economic category, ought even under the conditions of our economic activity to represent the sum total of resources which the basic organization of associated labor has realized on the market by selling goods and services which are the product of the social resources invested and the live human labor which has been associated. This by definition presupposes that the social assets cannot be used for unintended purposes and to appropriate the surplus value of someone else's labor, nor to create conditions for that kind of appropriation (Article 12, Paragraph 3, of the SFRY Constitution). In addition, in exercising the right to work with social resources the workers in associated labor cannot derive material benefit or other advantages which are not based on their work (Article 15, Paragraph 2, of the SFRY Constitution), nor to indicate income so realized as the result of their own work for purposes of distribution and in order to strengthen the economic position of the social economy. Accordingly, the economic position of the social economy, under self-managing conditions for the conduct of economic activity, depends in all respects solely on the associated workers' own performance and on the use of social resources within the limits of economic rationale set down in the process of overall social reproduction.

1. Analysis of the Formation of Gross Income

According to Marx, gross income consists of the invested value of past labor and the newly created value that comes about through investment of live human labor. In accordance with our political commitments, gross income also consists in our country of the value of past labor passed on in the form of material costs and depreciation, and of the newly created value in the form of income.

This statement of economic principles in the distribution of gross income were the point of departure, yet the accompanying regulations in our country did not enter into classification and interpretation of the various economic indicators of either past labor or live labor. According to those interpretations, in the process of production, aside from the material form of past labor, in our case there is also a change in the value of production, and

that to the disadvantage of the newly created value realized through live labor. We should emphasize especially that in our situation, in accordance with legislation in effect, income is an accounting category, not the result of the newly created value. Precisely because the true value of the results of labor, that is, income, depends on many factors, which in practice means that in our case the formation of gross income and the accounting of income are also a basis for engendering problems which are scattering without control what has been created in the process of reproduction.

The formation of gross income and the realization of income, according to Marx, are related to the market and to the product as the result of the social resources and live human labor invested, and not to the revenues realized through redistribution of the newly created value, or on the basis of accounting. The reason why this is emphasized is that in our case, in the spirit of the legislation in effect, gross income consists not only of sales of products and productive services, but also of revenues indicated on the basis of internal sales, joint revenues, turnover in trade and other revenues realized even through other channels than the market. The gross income of the basic organization of associated labor formed in this way obviously consists not only of revenues which are the result of the resources and live human labor invested, but also revenues realized through the normative acts embodying the system. Gross income, then, also includes revenues realized on the basis of social resources loaned out in the form of credit, interest, premiums, and then rebates and the like. For revenues of this kind it is very difficult to find the most suitable economic criteria to govern distribution since live human labor has not participated in creation of those revenues, but only the social resources invested, which were committed to purposes outside the basic organization of associated labor. Accordingly, in economic terms it would be more correct to channel these and similar revenues into enlargement of the reproductive capacity of social property (Article 18 of the SFRY Constitution), since only it has in fact participate in creation of that income, but as a matter of principle they are not to be alienated from the organization of associated labor which realized them. That kind of use of the resources of gross income would be in line with the economic interests of both the associated workers and also society as a whole.

The observations presented above and the balance figures given reflect in no uncertain terms the deformations that arise out of this method of forming gross income, especially when we think of the material difference and also structural difference that arises out of the distribution and accounting of gross income. For instance, under regulations now in effect the formation of gross income yields one set of results, while application of standard Marxist economic categories would give altogether different results both in absolute terms and also in relative proportions. Until these deformations in the formation of gross income are corrected, the social economy, though it is conducting its business quite well in relative terms, the value of the results of its labor and performance achieved in the self-management context of economic activity will be devalued.

In connection with what we have said above, there is good reason to observe that these and similar deformations of the system are having a very adverse

effect on self-management as well, so that this is probably why there has been criticism of self-management conditions for the conduct of economic activity. All of this shows that the causes of the problems of the present situation in the economy lie in relations which have not been cleared up between the inherited conditions for the conduct of economic activity and the newly adopted conditions of self-management. The specific reason for this is that the self-management conditions for the conduct of economic activity require absolute order in operation and in physical-financial flows, as well as standard economic criteria in the process of reproduction and distribution of the newly created value, while the inherited conditions for the conduct of economic activity exert continuing pressure for things to be done in the same old way. We should emphasize in this connection that things will continue to be done in the same old way until the accompanying regulation of the government administration are brought into conformity with Marxist economic relations and the economic interests of the associated workers and society as a whole, which should at the same time serve as the political basis and guarantee that economic laws will be honored in the work process.

2. Analysis of the Distribution of Gross Income

If we analyze the official data from the balance sheet of the operating results and gross income of the social economy, we have good reason to say that they contain much of the old we have referred to and that this is why we have disturbed relations between the individual elements of gross income, which have had a spiraling effect on the physical-financial flows of society as a whole. The figures concerning distribution of gross income in the report on operating results allow one to draw a conclusion as to how gross income is distributed and income ascertained in basic organizations of associated labor in accordance with the regulations in effect and also what that kind of distribution means to the economic position and material base of the social economy:

<u>Elements of Gross Income</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Total costs incurred in the accounting period	80.8	80.3	80.6	81.5	82.3
Uncovered portion of costs carried over in the form of inventories	4.5	3.9	3.6	3.7	4.0
Costs covered out of gross income	76.3	76.4	77.0	77.8	78.3
Portion of gross income remaining for the income of the economy	23.7	23.6	23.0	22.2	21.7
Gross income	100.0	100.0	100.0	100.0	100.0

According to these figures, total material costs incurred and covered in the accounting period truly have a very large share in gross income. For example, the share of these costs in gross income over the period under consideration goes even as high as 82.3 percent of gross income, which undoubtedly shows that in 1982 the financial result was achieved with only about 17.7 percent of gross income. We should emphasize in this connection that that amount of resources can cover only funds set aside for personal incomes of the social economy, while coverage for all other appropriations has to be found through

accounting, which can best be seen from the figures given above on the operating results of the social economy.

Where the resources come from to replenish funds and for other appropriations financed from income depends in large part on what amount of the costs will be carried over and charged to the inventories of the social economy. Working capital is used to meet obligations arising out of those relations. This observation, which is based on the figures in the balance, shows that our financial result mainly depends on the portion of costs not covered, rather than on the results of work and things of that nature.

But the costs which have not been covered, whose coverage is being deferred to better times, according to the data we have available, show a mild growth tendency in both absolute amounts and also relative proportions. We should especially emphasize that under our conditions for the determination of income, the amount of costs which will be covered with the resources of gross income depends precisely on the size of those uncovered costs. The amount of gross income which will remain as the income of the basic organization of associated labor also depends on accounting and on the costs uncovered, but it does not depend on the results of work. All of this shows very clearly to what extent income is materially bound up with accounting and with the movement of these costs. We therefore have good reason to conclude that these economic indicators are very firmly bound up with one another and that an increase of one entails quantification of another. In practical terms it looks like this: the larger the costs which are carried over, and the smaller the costs which are covered, the larger the income will be, and this applies to the same amount of resources.

Everything we have said to this point constitutes a very serious warning of the importance of the way we establish income on the basis of accounting, since the way income is accounted is opening up an opportunity for making expenditures which do not have material backing at that moment. Accordingly, the distribution of gross income and the ascertainment of income in our country afford the social economy the possibility of uncontrolled expenditure under the guise of material costs of what does not de facto even exist, and yet the basic organization of associated labor does not even show a loss in such a case. Unfortunately, this is possible under our conditions for the use of social property and the way in which the balance sheet of resources is drawn up thanks to the huge amount of working capital and mutual credit financing, that is, to the fact that income is ascertained on the basis of accounting, and also thanks to gross income which is realized solely on the basis of resources invested and the turnover of goods and services.

If we want our associated labor to do business under more stable conditions for the conduct of economic activity, in more standard socioeconomic relations, then we must unfailingly make the transition to ascertaining income on the basis of balance figures concerning the level of the value of past labor and the value of newly added labor invested. Only on the basis of income ascertained in that way can more stable conditions be guaranteed for the social economy to conduct its economic activity.

The large departures of the basic economic categories in the makeup of total available resources and in the makeup of gross income are a reflection of economic power and of relations created under the influence of the government administration. That is, our government administration, in meeting its own needs and the needs of society as a whole which are financed from the resources of the newly created value, has not built up a mechanism in the sense of a system that would guarantee sources of resources within the limits of the newly created value and material capabilities, and also within the limits of the economic interests of associated labor and of society as a whole.

These observations are confirmed by the figures given above on operating results, which impose the conclusion that the government administration is also influencing the use of all the available resources of the social economy. In practice this means that in our country the expenditure of the government administration and of society as a whole is being financed not only from the resources of the newly created value, that is, from income, but also from resources constituting the value of social property. This kind of use of social resources is contrary to the provisions of the SFRY Constitution and our political commitment. Consequently, if we want to achieve a situation in which the associated workers, unhindered and under more stable conditions for the conduct of economic activity, work, manage and dispose of social resources, use pooled resources more profitably and economically, then the administrative agency and also sociopolitical communities must absolutely abide by the SFRY Constitution; that is, if we want spending to stay within the limits of the material capabilities of society as a whole. Otherwise we are threatened with the danger of social property being "eaten up" unwittingly, in addition to the newly created value. In view of the fact that according to the observations made above, through various credits and mutual credit financing we have managed to the detriment of social property to spend more than 55 percent of all the available resources of the social economy and that for that reason we must halt this process, it is indispensable to adopt a proposal for financing social and other expenditure which would guarantee that it conform to the economic interests of the associated workers, the newly created value and the material capabilities of the country as a whole.

And finally, we should emphasize that on the basis of the balance figures we can conclude that our economy is conducting its economic activity constructively, but because of the lack of coordination and adequate control, especially concerning use of the total resources available and the uncontrolled payment for nonmaterial and other expenditures, it has as a practical matter been placed in a difficult position in view of the serious lag in the circular movement of resources. The way out of this situation should be sought at this point mainly in reducing the economy's social obligations.

Of course, a rigorous reduction of those obligations probably could not be achieved overnight without many entities, especially those outside the economy, being appreciably hurt. Also, changing the government regulations in effect which are the basis for forming gross income and for calculating the various economic-and-financial indicators with which economic results and financial results, especially distribution of the newly created value and income, are shown, a change that we have advocated in this article, cannot be

only a pure neutral and bookkeeping operation which at the same time does not affect the production orientation and business orientation of organizations of associated labor, the behavior of administrative agencies and sociopolitical communities, or in general the movement of economic-and-financial flows of the economy. But neither reduction of the economy's social obligations or changing the way in which the economic-and-financial results of the economy are ascertained would represent any sort of departure in principle from the principles of the constitution and the Law on Associated Labor. On the contrary, this would only be a more effective clearing of the way, the creation of much more favorable conditions for their application in economic practice, and that also means for a strengthening and more rapid development of socialist self-management as a whole.

In view of the reality of our overall relations and also our desire for entities both within the economy and outside it not to be essentially hurt, perhaps it would be most acceptable to start with some minimum. In our opinion, it would consist of the following: to undertake over a period of 3 to 4 years a constant, but gradual reduction of the economy's social obligations, especially a reduction of the obligations of all entities to the federal budget, so that the largest items of the federal budget would be financed by the issuing of money by the National Bank of Yugoslavia. In that way the obligations of the economy would on the one hand be reduced, and its reproductive capability would thereby be increased over and above the amount of resources set aside for the business capital of the social economy in 1982. In addition, within basic organizations of associated labor that large amount of money and also the results of reducing other obligations would initiate the process of the circular movement of assets which are now frozen in many commitments which are waiting for backing.

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YUGOSLAVIA

BRIEFS

USSR GOSPLAN OFFICIAL--Belgrade 21, Oct (TANJUG)--Jon Srbovan, member of the Federal Executive Council and deputy chairman of the Yugoslav part of the Yugoslav-Soviet intergovernmental committee for economic, scientific and technical cooperation, today received Viktor Biryukov, deputy chairman of the USSR Gosplan and head of the Soviet delegation to the eighth session of the working group for transport. [Text] [LD212248 Belgrade TANJUG Domestic Service in Serbo-Croatian 1019 GMT 21 Oct 83]

SOVIET TANKERS UNLOAD CRUDE--Two Soviet tankers today completed the unloading of 96,000 metric tons of crude oil at the oil terminal of the Yugoslav oil pipeline in Omisalj. The unloading of another 30,000 metric tons from the tanker Bucuresti will begin this evening. Yet another Soviet tanker with 48,000 metric tons of oil is expected in Omisalj on Monday. Most of this crude is intended for processing at the Energopetrol Refinery in Bosanski Brod. [Text] [Zagreb Domestic Service in Serbo-Croatian 1400 GMT 22 Oct 83 LD]

UNEMPLOYMENT IN MONTENEGRO--Titograd, 13 Oct (TANJUG)--The records of the communities for employment in Montenegro show over 30,000 unemployed, 23,000 of whom are young people seeking their first jobs. As compared with 1981, the number of unemployed increased 18 percent--the greatest increase since 1975. It is assessed that an organized action of all social factors in the republic could considerably reduce unemployment in Montenegro. What is meant in this connection is primarily the introduction of several shifts in production activities, a greater work involvement in small economy and in private agriculture, and a better coordination of the educational system with the needs of the economy, society, and so forth. [Summary] [Belgrade BORBA in Serbo-Croatian 14 Oct 83 p 4 AU]

FOREIGN TRAVEL, DEPOSITS--From the beginning of 1983 until 20 August, 6,936,116 Yugoslavs crossed the border, including those in local border traffic. Of these people, 442,768 have so far paid the deposit payable for each border crossing. [Summary] [Belgrade POLITIKA in Serbo-Croatian 5 Oct 83 p 8 AU]

EXPORTS TO BRITAIN UP--Yugoslav exports to Britain increased 70 percent this year. In the first 8 months, exports amounted to 44 million pounds and they are expected to reach 70 million pounds by the end of the year. [Summary] [Belgrade BORBA in Serbo-Croatian 6 Oct 83 p 7 AU]

CSO: 2800/62

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